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IN THE

Supreme Court of the United States

October Term, 1953 No. 419

CONTINENTAL DISTILLING CORPORATION,
Petitioner

vs.

CENTURY DISTILLING CORPORATION,
Respondent

Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit and Brief in Support Thereof

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

To the Honorable, The Chief Justice and Associate Chief Justices of the Supreme Court of the United States

Your petitioner, Continental Distilling Corporation, respectfully prays for a writ of certiorari to the United States Court of Appeals for the Third Circuit, to review that Court's Judgment (R. 1867), dated June 17, 1953 in petitioner's Appeal No. 10,717 in that Court, insofar as it affirms the District Court's Judgment (R. 298) in respect to certain of the matters set forth in petitioner's Notice of Appeal (R. 1799-1803), namely, the matters indicated by the *Questions Presented* on page 14 infra.

A certified transcript of the record of this case, including the proceedings in the United States Court of Appeals for the Third Circuit, is furnished herewith in accordance with the Rules of this Court. This certified transcript of the record includes matter not essential to the consideration of the questions presented by this petition, and if this petition is granted petitioner will endeavor to eliminate such unessential matter in accordance with paragraph 8 of Rule 38 of this Court. Such unessential matter relates largely to respondent's Appeal No. 10,716 (in the Court of Appeals) in which a separate Judgment was entered by the Court of Appeals;—the present petition not seeking a review of the Judgment of the Court of Appeals in Appeal No. 10,716.

THE JUDGMENT AND THE UNDERLYING DECISIONS, AND THE PROCEEDINGS BELOW

The Judgment (for the review of which a writ of certiorari is sought) is one on the accounting for profits and damages in a trademark infringement suit under Sections 16, 17 & 19 of the Trade-Mark Act of February 20, 1905 (15 U. S. C. §§96, 97 & 99) commenced by petitioner's Counterclaim (R. 50-57) filed on September 18, 1937 with its Answer (R. 45) to respondent's Bill of Complaint (R. 39) filed July 28, 1937 under R. S. 4915.*

Petitioner charged respondent with, and the courts held respondent guilty of the infringement of petitioner's previously registered and extensively advertised and widely used trademark DIXIE BELLE as applied to gin and certain other distilled alcoholic beverages, by respondent's sale of DIXIANA branded gin and DIXIE DEW branded whiskeys,[2] and held that such infringement was willful and deliberate.

By *paragraph V* (R. 41-42) of its *verified* Bill of Complaint (R. 39) respondent adopted its previous Answer (R. 26) in Opposition 14,801 "as part and parcel" of its Bill of Complaint, and stated that the matters set forth therein—including its statement that its *DIXIE DEW*

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* 35 U. S. C. 63, and 15 U. S. C. 89; as interpreted in *U. S. ex rel. Baldwin vs Robertson*, 265 U. S. 168.

[2] Petitioner's and respondent's labels bearing the involved marks may be seen in the Record in Case No. 608, October Term, 1939, in this Court, on respondent's petition for writ of certiorari (309 U. S. 662); in which *earlier* Record such labels appear on the following pages: DIXIE BELLE *Gin* (R. 55, 59 & 271); DIXIE BELLE *Martini Cocktail* (R. 47); DIXIE BELLE *Bronx Cocktail* (R. 51); DIXIE BELLE *Sloe Gin* (R. 45 & 53); DIXIE BELLE *Old Tom Gin* (R. 49); DIXIE BELLE *Buchu Gin* (R. 61); and DIXIE BELLE *Vermouth Cocktail* (R. 265); and DIXIANA *Gin* (R. 179, 181 & 247) and DIXIE DEW *Whiskey* (R. 203 & 205).

whiskeys are "goods of the same descriptive properties" as petitioner's DIXIE BELLE gin—"are true and correct" (R. 42).

Upon the trial, respondent introduced evidence under 35 U. S. C. 63, and further oral testimony (R. 69-79) to show, inter alia, the differences between gin and whiskey;—as a basis for its contention of non-liability for its DIXIE DEW infringement.

The case having been tried upon pleadings and proofs, the District Court (Maris, J.) rendered its Opinion (R. 94, and 23 F. Supp. 705) on June 17, 1938 and its Findings & Conclusions (R. 99), and entered an Interlocutory Decree on June 27, 1938 (R. 106), sustaining petitioner's Counterclaim (R. 50-57) for trademark infringement and dismissing respondent's Complaint (R. 39);—(a) affirming the concurring decisions* of the two tribunals of the Patent Office and (b) holding that respondent's accused marks DIXIANA applied to gin and DIXIE DEW applied to whiskey are "colorable imitations" of petitioner's trademark DIXIE BELLE applied to gin and certain cocktails and other alcoholic beverages and are "calculated or liable to deceive" and that respondent "is guilty of infringement" and that petitioner "is entitled to an accounting of profits and damages as prayed for in its Counterclaim" and "is entitled to all the relief afforded by the applicable Statutes and by the equity powers of the Court" (R. 105), and by its Interlocutory Decree (R. 106-108) referred the case to a Master

> "to take the usual accounting and report to this Court the amount of (respondent's) profits from the sale of its DIXIANA marked goods and from the sale of its DIXIE DEW marked goods and the amount of the damages (petitioner) has sustained by reason of (re-

* i.e. the two decisions (R. 30 & 32) of the Examiner of Trademark Interference and the two affirming decisions (R. 35 & 37) of the Commissioner of Patents on respondent's appeal.

spondent's) use of the mark DIXIANA and DIXIE DEW"

and decreed

"that (petitioner) recover from (respondent) the amount of (respondent's) profits found on the accounting together with treble the amount of (petitioner's) damages found on the accounting, together with the cost of this suit" (R. 108).

In affirming (R. 109-117) the aforesaid decision of the District Court, on respondent's appeal (No. 6833, filed June 27, 1938), the Court of Appeals said:

"An analysis of the record in the proceedings before the Commissioner of Patents and of the proceedings before the Court below satisfies us that the latter did not err in its conclusion on the merits—that is, that there was a deceptive similarity between the [respondent's] trade marks and those of the [petitioner]; that the trade marks which the [respondent] used and sought to register are colorable imitations of the [petitioner's] trade marks." (R. 111)

* * * * * * * *

"the cause is remanded for further proceedings consistent with this opinion" (R. 117). (106 F. 2d 486)

On July 22, 1939 respondent petitioned the Court of Appeals for a Rehearing* on the ground, inter alia, that there should be no accounting for profits or damages in respect to its Dixie Dew sales because of the differences between gin and whiskey. This Petition was denied on October 5, 1939.

On December 27, 1939 respondent filed a petition in this Court for writ of certiorari (No. 608);—again contending that there should be no accounting of profits and

* Respondent's Petition for Rehearing is part of the Record on its petition for writ of certiorari filed in this Court, October Term, 1939, *No. 608*.

damages in respect to its DIXIE DEW whiskey because of the differences between gin and whiskey. This petition was denied (309 U. S. 662).

The accounting before the Master commenced on February 20, 1940. On April 1, 1940 respondent filed its first Statement of Account (R. 322-326) showing $516,670.00 *less* net profit from its sales of its infringingly branded goods than was found by the Court, and so respondent contended that it had a net loss on its $6,175,599.24 sales of DIXIE DEW whiskey (R. 150). Respondent took 5 years, namely, from April 12, 1940 (R. 815) to March 21, 1945 (R. 1214), with the testimony of its witnesses on its case-in-chief in an effort to prove its claimed deductions from its infringing sales, and during the course thereof revised its Statement of Account from time to time. Respondent also took from December 6, 1943 (R. 980) to February 21, 1947 (R. 1685) to take the testimony of its co-infringers, namely, its wholesalers, retailers and bartenders who resold its infringingly-branded goods, in an effort to show that under this Court's decision in *Mishawaka vs Kresge* (316 U. S. 203) respondent should not pay to petitioner any of respondent's profits from its sales of DIXIE DEW whiskey nor pay to petitioner the latter's damages resulting from such infringing sales;—about ⅘ of these witnesses having been called after petitioner formally offered to stipulate that however many more of its tradesmen might be called by respondent, they would testify as did the first ten theretofore called by respondent.

The Master in his Report to the Court found as a fact that DIXIE DEW was in direct competition with DIXIE BELLE (R. 222-3) and that DIXIE BELLE suffered from the contemporaneous sale of DIXIE DEW (R. 270-1).

The Master further found (and the Court confirmed) (a) that *respondent's marketing of Dixie Dew "was a deliberate attempt on its part to obtain any and all benefits which the name may ensnare on the market, including the benefit of Dixie Belle's reputation if any"* and (b) that *respondent "must be deemed to have attached considerable sales value to the name, and to have desired and intended*

to take whatever advantage the name carried with it, including any benefit of any reputation and magnetism that Dixie Belle may have been responsible for in the market" (R. 221a), and (c) that *respondent's "persistence in its use of the offending name, throughout the major portion of the accounting period . . . must be regarded as risking all adverse inferences respecting its intentions, purposes and motives, including the most unfavorable inference that it marketed its Dixie Dew with the purpose of securing the benefit of Dixie Belle's reputation on the market"* (R. 220), and (d) that *there was no basis for respondent's "repeated protestation of its good faith"* (in the adoption and use of the infringing marks), *nor for "its claim to exemption of the consequences of its infringement because of its pretense of good faith."* (R. 134).

The Court, in its Opinion (R. 282-290) reviewing Parts I & II of the Master's Report on profits, held that respondent's *infringement "certainly was not innocent"* and that *"in this case there can be no possible question that respondent's conduct was willful, undertaken and persisted in with full knowledge of petitioner's rights, and, if it adds anything, it can also be characterized as deliberate"* and that *respondent "knew that (petitioner) was building up a reputation by the use of a similar, though not identical, trademark and that it was quite willing to go into very large scale production and sale of the article, with at least a presumed knowledge that it had no right to do it, and taking the risk that it might be held an infringer"* (R. 285-6).

In Part I (R. 128-216) of his Report of November 17, 1948 the Master found that respondent made a net profit of $311,499.14 (R. 215) from its sales of DIXIE DEW.

In Part II (R. 217-255) of his Report, (a) the Master cut down the profit-award by 50%, on the assumption that 50% of all sales of the infringingly-branded goods had been sold to bars and on the further assumption that bar sales are wholly without trademark influence or brand-appeal, (b) and as to the remaining 50% of the sales (those which, on the Master's first assumption, would have been through package-stores) the Master then cut down the

profit by a second 50%, on the *negative* testimony of respondent's co-infringing retailers that they did not observe any confusion in the minds of their customers. By these two successive 50% cuts the Master reduced the infringing profits awarded petitioner to $78,052.13, namely, to only 25% of the amount of the net infringing profits found.

The Master awarded interest at 5% on the profit-award from the end of each fiscal year during which the annual portions thereof were accrued by respondent to the date of the Master's Report.

On petitioner's Objections 5, 6 & 18 (R. 592-3 & 596) to Part I of the Master's Report, the District Court found (R. 284, 288-290 and 275-6) that respondent's net profits from its sales of DIXIE DEW whiskey were $440,236.40, but awarded only 25% of this infringing profit, namely, only $110,059.10 (plus ¼ of respondent's Dixiana profits), and overruled the Master's award of interest on the profit-award for the period between the accrual of the profit and the Master's Report.

In petitioner's view the Court also understated (by about 42%) respondent's visible net profits from the sale of its infringingly branded goods. However, petitioner does not here seek a review as to this understatement of the visible net profits.

While respondent was still in the midst of proving its claimed deductions on the profit-accounting, namely in the Fall of 1943, respondent's business was sold in its entirety, and the report to its parent-company's stockholders (R. 676) showed that over and above respondent's profit shown by its book-entries, respondent had also an additional economic gain of $16,750,000.00 (R. 739) not shown by its book-entries but revealed upon its ultimate sale, which hidden economic gain it had accumulated over the 9¾ years of its existence, of which its five early formative years was the period of its infringement.

The Court also refused petitioner any prorated portion of respondent's hidden economic gains.

In his 1951 Report, Part III (R. 256-277) on the damage-accounting the Master found that during the 2½-

year period (7-1-39 to 12-30-41) immediately following the cessation of infringing sales at distillery level, the sales-volume of petitioner's infringed brand remained depressed at substantially the same low level to which it had been depressed during the prior 5-year period† of infringing sales at distillery-level and that petitioner's sales during such 2½-year period were adversely affected by the infringement. The Master found that during such 2½-year period petitioner lost the sales of 321,842 cases of DIXIE BELLE, and that its profit on same would have been $472,578.54;—computed at the infringement-depressed prices at which DIXIE BELLE was sold during such period.*

The Master then cut down by 75% the damage found by him to have been suffered by petitioner, doing so by analogy to his earlier elimination of 75% of such infringing profits as the Master stated on his profit-accounting.

The Master then further relieved respondent in respect to 48% of the remaining 25% of this damage item, and hence awarded petitioner only 13% of this damage item, namely $61,435.21 (R. 272).

As the profit-accounting and the damage-accounting could obviously not proceed concurrently, the Master first determined the amount of the infringing profits, and thereafter determined the amount of the damage.

The Court ruled against any award of damage on the theory that the prior ascertainment of profits constituted an election by petitioner to take profits instead of damage, whereas the interlocutory decree and the applicable statute entitled petitioner to both the infringing profits of respondent and the damage suffered by the petitioner (peti-

† Only the last 4 of which are covered by the profit-accounting, because the master did not take an actual account of DIXIANA profits, the sale of which started a year before the sale of DIXIE DEW was commenced.

* Computed at the higher pre-infringement prices of DIXIE BELLE the profit-loss on such lost sales-volume would have been substantially greater than the above amount found by the Master.

tioner seeking to recover infringing profits *and the excess of damages over such profits*).

In its subsequent reviewing Opinion (R. 293-4) the District Court overruled the Master's award of this damage, and thereafter entered Judgment (R. 298) for $110,248.95, which was only 25% of respondent's net infringing profits found, and overruled the Master's award of interest, and allowed interest only from the date of the Master's Report, and taxable costs;—which total of the Judgment was substantially less than petitioner's expenses in this litigation (R. 619-621).

The Master did not compute the sales lost by petitioner during the 4-year period of the profit-accounting because the Court had ruled that such damage during the 4-year period was not recoverable in addition to the infringer's profits. However, using the same exhibits and method of computation which the Master had used in computing petitioner's damage due to lost sales during the aforementioned 2½-year period, petitioner's corresponding damage due to lost sales during the 4-year period is also readily computable, and such computation shows that during such 4-year period (ending June 30, 1939) petitioner lost sales of 292,885 cases of DIXIE BELLE and that its loss of profit on these sales was $755,609.74, computed at the infringement-depressed price at which DIXIE BELLE was sold during that period.

13% of this damage item is $98,259.96.

The sum of these two damage items* for the 2½-year and the 4-year period, respectively, each reduced to 13%, is $159,668.48.

It is to the *exclusion* of even this 13% fraction of these two items of damage that the substantially lesser profit-award was given;—on the Court's theory of "election".

Petitioner also suffered damage due to price-depression (R. 793, & the last item on R. 797) which was disallowed below but as to which no review is sought.

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* And disregarding the damage due to the price-depression of DIXIE BELLE (R. 793, and last item on R. 797) and damage due to impairment of goodwill (R. 798).

Petitioner also suffered damage due to the impairment of its goodwill appurtenant to its mark DIXIE BELLE (R. 798), which item of damage was withheld from petitioner on the theory of "election" and because such goodwill regained its pre-infringement level after the effects of the infringement were dissipated. Petitioner seeks a review of this matter because it involves important questions of law.

By its advisory Opinion of July 15, 1949 (R. 278-281) the District Court reserved for later consideration by it, the matter of petitioner's litigation expenses, as an item to be recovered in this suit (R. 281), and hence the Master did not receive evidence in regard thereto, and petitioner's proofs of its litigation expenses and of facts which should incline the Court to award same were presented by offer of proof first made orally on October 11, 1951, and thereafter formalized by written Motion (R. 619-621) and made part of the record by leave of Court. The Court did not award any litigation expenses incurred by petitioner.

In view of the Court's ruling that recovery of profits on the one hand and damages due to lost sales on the other hand were to be deemed to be mutually exclusive, namely, that *the profit was a measure and was awarded in lieu of the damage sustained*, petitioner filed a Motion (R. 617) for the entry of judgment for three times the amount of the profit-award in accordance with *paragraph 12* of the Interlocutory Decree (R. 108) of June 27, 1938, which decreed that petitioner recover from respondent three times the amount of its damages found. This Motion was denied.

SUMMARY OF MATTER INVOLVED

1. The Master and the Court erroneously deprived petitioner of 75% of respondent's visible net profits found from the sale of respondent's infringingly branded goods,

   a) on the assumption that 50% of the infringingly branded goods sold *nationally* were sold over bars, because of a showing that 50% of *all liquors of all*

brands of all manufacturers were sold over bars in Pennsylvania and in Illinois, without any showing of correlation between the percentage of *all* liquors sold over bars in the two states and the percentage of DIXIE DEW sold over bars nationally, and

b) on the assumption that sales of liquor over bars are "anonymous" or wholly without trademark-influence or brand-appeal;—upon the wholly negative testimony of some of respondent's co-infringers* ten years after the event, that they did not observe any confusion in the minds of their customers when they re-sold the infringingly branded goods, while other of its witnesses testified that there had been actual confusion and that the trademark or brand-name was the dominant influence in the sale of liquors over the bars including particularly the infringingly branded goods and that there had been actual confusion between the involved marks at the bar level, and

c) on the assumption that in 50% of the sales *of the other 50% of the infringingly branded goods* sold through package-goods stores there was neither confusion nor trademark-influence or brand-appeal affecting the sale:—again upon the same wholly *negative* testimony of the same class of respondent's witnesses, all of whom testified that they in fact did not know whether there had or had not been confusion in the minds of customers and most of whom admitted that in virtually 100% of retail sales of liquors in the original bottle, the trademark is the dominant factor in choosing between competing products, and some of whom testified that there had been actual confusion at the package-store level. (R. 1805-1849).

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* i.e. its wholesalers, retailers and bar keepers, who resold its infringingly branded goods.

2-a. The Court first erroneously held that petitioner could not recover its damage due to loss of profit on sales lost during the 4-year period covered by the profit-accounting, even though such loss or damage be greater than the profit,

2-b. the Master then erroneously deprived petitioner of 87% of the damage which the Master found petitioner had suffered during the aforesaid 2½-year infringement-affected period due to loss of profit on lost sales, and

2-c. the Court thereafter erroneously held that petitioner could not recover any part of the damage which the Master found petitioner had suffered during such subsequent 2½-year infringement-affected period due to loss of profit on sales lost (and only 13% of which the Master awarded), on the Court's erroneous theory of "election", mentioned above, though such damage was suffered during a period different than that covered by the profit-accounting and even though such damage, when trebled under paragraph 12 of the interlocutory decree, is in excess of the profit-award.

3. The Court erroneously disallowed petitioner interest on the profit-award from the respective dates of the profit-accruals to the date of the Master's Report; which interest the Master had properly awarded in accordance with the applicable decisions.

4. The Court erroneously refused petitioner any prorated share of respondent's hidden economic gain shown upon respondent's ultimate sale, some share of which was accumulated during respondent's infringing years;—during which years its infringingly branded goods represented approximately ⅓ of its total volume while its other twenty odd brands represented the balance of its volume (no one of its other many brands approaching the volume of its infringing brand).

5. The Court erroneously refused petitioner recovery of its damage due to the impairment of its good-will appurtenant to its infringed trademark (on the basis of goodwill computation recognized by the courts in other cases where goodwill is evaluated, or on any other basis);—such refusal having been based on the fact that after the effects of the infringement were dissipated the goodwill regained its pre-infringement level and also upon the Court's theory of election mentioned above (even though petitioner sought to recover its damage due to loss of goodwill only alternative to all other measure of damages and only alternative to infringing profits).

6. Though ruling that the profit-award was in lieu of and as a measure of petitioner's damage, the Court erroneously refused to enter judgment for three times the amount thereof as provided by paragraph 12 of the Interlocutory Decree or for some other amount in excess of the profit (but not more than three times the amount thereof), to compensate petitioner (a) for the excess of damage found over the profit found, (b) for petitioner's litigation expenses which exceeded the profit awarded, and (c) for respondent's use of the infringing profits for some 10 years during which time petitioner was deprived of their use.

JURISDICTIONAL STATEMENT

This Court has jurisdiction to review the final judgment here involved, under Section 1254(1) of the Judicial Code as amended, Title 28 U. S. C. 1254(1), Act of June 25, 1948, c. 646, 62 Stat. 928.

The Judgment (R. 1867) for the review of which a writ of certiorari is here sought, is dated June 17, 1953. Petitioner filed a timely Petition for Rehearing (R. 1868-1877), which was denied on July 21, 1953 (28 U. S. C. 2101-c; and *National Labor Relations Board vs Mackay Radio*, 304 U. S. 333, at 344).

STATUTE INVOLVED

The cause presents the construction of Section 19 of the Trademark Act of February 20, 1905 (15 U. S. C. 99), which is the same as Section 35 of the Trademark Act of 1946 (15 U. S. C. 1117) in respect to the matters here involved.

QUESTIONS PRESENTED

1. Under 15 U. S. C. 99 or under *Mishawaka vs Kresge*, supra, is the infringed party barred from the recovery of damages in lieu of profits where the damages are found to be the greater, *or* from the recovery of profits plus the excess of damages over profits?

2. Under 15 U. S. C. 99 or under *Mishawaka vs Kresge* (316 U. S. 203) does the infringed party (here petitioner) have a burden of electing between profits and damages prior to their determination?

3. If the infringer's profits are awarded in lieu and as a measure of the infringed party's damages (as was done in the case at bar) is not the infringed party entitled to judgment either for three times the amount of the profit-award under the *trebling* provision of the Interlocutory Decree or for some other amount above the profit-award (but not more than three times the amount thereof) to compensate the infringed party (*a*) for its litigation expenses which here exceed the profit-award, and/or (*b*) for its damages in excess of the profit-award, and/or (*c*) for the infringer's use in its business of the retained infringing profits for a period of approximately 10 years prior to their determination by the Master, during which period the infringed party was deprived of the use of such monies; —where for each of its 9¾ years the infringer's business (in which such unlawfully retained profits were used) returned an average *visible* net profit of 51% *per annum*

before and 31% *per annum* after income taxes and an *overall* net profit of 124% *per annum* before and 104% *per annum* after income taxes, on invested capital and borrowed money?

4. Under *Mishawaka vs Kresge*, supra, or 15 U. S. C. 99, is the infringer of a liquor trademark to be fully relieved of accounting for his profits from his sales of his infringingly branded liquors sold to bars, on the theory that liquor sales over the bar are "anonymous" or unaffected by any trademark influence or brand-appeal?

5. May it be assumed (for purposes of exculpating the infringer in respect to his bar-sales) that 50% of the national sales of the infringingly branded liquor was sold to bars, without any proof whatsoever as to what portion of the infringingly branded liquor was *in fact* sold to bars*; —merely upon the unsupported, uncorroborated and undocumented opinion of the infringer's expert witness as to what portion *of all brands of all kinds of liquors (of all manufacturers, combined)* is sold to barkeepers in Illinois [2] and upon a showing that 48% *of all brands of all kinds of liquors (of all manufacturers, combined)* were sold at wholesale by the Pennsylvania Liquor Control Board?

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* Which it was within infringer's power and burden to prove by its and its wholesalers' and distributors' invoices;—though it made no attempt whatever to prove what percentage of its infringingly-branded goods were *in fact* sold to bars (either nationally or in any particular State or locality) and it did not even suggest any reason or excuse for not attempting such proof.

[2] Respondent's Illinois barkeeper-witnesses having testified that their places of business were combination establishments which included a bar and also a package-sale-counter; but respondent did not have them testify as to what percentage of their total purchases of all liquors or of the infringingly-branded liquor were resold by them (a) over the bar and (b) over the package-sale-counter, respectively.

6. Under 15 U. S. C. 99 or *Mishawaka vs Kresge*, is the infringer to be relieved of paying (to the infringed party) 50% of his profits from his sales of his infringingly-branded goods to retail outlets where his goods were re-sold in their trademarked packages;—upon the *negative* testimony of his co-infringers (namely, his wholesale distributors and retail storekeepers who re-sold his infringingly-branded goods), given 10 or so years after the event, namely that they did not observe any confusion on the part of or in the minds of their customers?

7. Under 15 U. S. C. 99 or under *Mishawaka vs Kresge*, is the infringer to be relieved of paying (to the infringed party) 87% of the damage found, on the bases set forth in foregoing *Questions 4, 5 & 6?*

8. Should not infringer be required to account for and pay to petitioner a pro-rated share of its gradually accumulated hidden economic gains not reflected by annual profit-and-loss statement nor by an accounting based on its conventional book-entries but revealed upon the sale of infringer's assets or upon a single sale of 100% of its capital stock?

9. Should infringer be required to pay interest on the infringing profits found, for the period they were retained by him, namely, between the dates of the accruals of such profits and the date of their determination by the Master? (as held by the Master, but overruled by the Court)

10. May the infringed party not recover its damage due to the impairment of its goodwill appurtenant to its infringed trademark (a) either because such goodwill regained its pre-infringement level after the effects of the infringement were dissipated, or (b) because the recovery of such damage is barred by the recovery of the infringing profit?

REASONS RELIED ON FOR THE ALLOWANCE OF THE WRIT

Reason 1: The decision of the Court of Appeals for the Third Circuit is believed to misinterpret and to be in conflict with this Court's decisions in *Mishawaka vs Kresge* (316 U. S. 203), *Wrigley vs Larson* (277 U. S. 97) affirming 20 F. 2d 830 (7 Cir.) and *Hamilton-Brown vs Wolf* (240 U. S. 251) and is believed to be so inconsistent with Section 19 of the Trade-Mark Act of February 20, 1905 (15 U. S. C. 99)* as to leave the intent and meaning of the Statute in doubt,

(a) insofar as it relieves the infringer in respect to 75% of his infringing-profits found and 87% of the injured party's damage found, upon the *negative* testimony of tradesmen that they did not observe confusion in the minds of customers,

(b) insofar as it inverts the burden of proof in practical effect, in conflict with the above Statute and in conflict with this Court's decision in *Mishawaka vs Kresge*, supra (at least in respect to 75% of the infringing profit found),

(c) insofar as it bars the injured party from recovering the greater of profit *or* damage found, or from recovering, in addition to the profit found, the excess of the damage over profit, and

(d) insofar as it requires the injured party to "elect" between profit and damage, and

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* Section 35 of the Trade-Mark Act of 1946 (The Lanham Act), 15 U. S. C. 1117, is the same as Section 19 of the Trade-Mark Act of February 20, 1905 (15 U. S. C. 99), insofar as it provides for the recovery of the infringer's profits and the infringed party's damages, and insofar as it provides that in assessing the infringer's profits the infringed party is only required to prove the infringer's sales and the latter must prove all elements of cost or deduction claimed by him, and insofar as concerns the provision for the trebling of the damage found.

(e) insofar as it requires the injured party to make such "election" prior to the determination of profit and damage.

Reason 2: The decision of the Court of Appeals for the Third Circuit is believed to be in conflict with the following decision of Courts of Appeals for other Circuits *in respect to matters "a" and "b"* set out under foregoing *Reason 1:*

Wrigley vs Larson, 20 F. 2d 830 (7 Cir.)
Dad's Root Beer Co. vs Doc's Beverage Inc., 193 F. 2d 77 (2 Cir.);—affirming 94 F. Supp. 121
Trappe vs McIlhenny, 12 F. 2d 19 (5 Cir.)
Lawrence vs Societe, 52 F. 2d 774 (6 Cir.)

Reason 3: The Court of Appeals for the Third Circuit has rendered a novel decision on an important question of law vitally affecting the practical protection and enforcement of all trademark rights,

(a) insofar as its decision relieves the infringer (irrespective of any evidence) in respect to *all* of his infringing profits from sales where the ultimate consumer does not personally open the trademarked package but where the last person in the distributive chain does so for him and indeed *in his presence, as in the case of bar-sales*, and

(b) insofar as its decision relieves the infringer (irrespective of any positive or direct evidence) in respect to 50% of his infringing profits from sales where the ultimate consumer *does* open the trademarked package;—upon mere *negative* testimony many years after the event that the wholesalers, distributors and retailers did not observe confusion in the customers' minds at the time of purchase.

Reason 4: The decision of the Court of Appeals for the Third Circuit is believed to be in conflict with the fol-

lowing decisions of the same Court and of Courts of Appeals of other Circuits and of other Courts, *in respect to matters "c", "d" and "e"* set out under foregoing *Reason 1:*

Fahey Tobacco Co. vs Senior, 252 Fed. 579, 581 (3 Cir.)
Aladdin vs Mantle, 116 F. 2d 708, at 715-8 (7 Cir.)
Dowagiac vs Deere, 284 Fed. 331 at 338 (8 Cir.)
Oil Well Improvement Co. vs Acme, 31 F. 2d 898, at 900-2 (8 Cir.)
Brunswick vs American, F. Supp. ; 60 PQ 294, at 296 (DC SD NY) January 17, 1943;—modified on other grounds at 150 F. 2d 69 (2 Cir.; June 11, 1945)

Reason 5: The decision of the Court of Appeals for the Third Circuit is in conflict and inconsistent with its own earlier decision in the same case affirming the Interlocutory Decree, which decreed that petitioner should recover profits and damages, *and* directed an accounting of *both.*

Reason 6: The decision of the Court of Appeals for the Third Circuit is believed to be in conflict with the following decision of this Court and with the following decisions of the same Court of Appeals and of other Courts, insofar as it overruled the Master's award of interest on the profit-award from the respective dates of the profit-accruals to the date of the Master's Report:

Wrigley vs Larson, 277 U. S. 97; affirming 20 F. 2d 830 (7 Cir.)
Duro vs Duro, 56 F. 2d 313, at 316-7 (3 Cir.)
Stetson vs Stetson, 58 F. Supp. 586, at 596 (DC SD NY, 1944)
National vs Dayton, 95 Fed. 991, at 996 (CC SD Ohio, Judge Taft)
Stromberg vs Detroit, 44 F. 2d 958 (7 Cir.)

Reason 7: Insofar as its decision refused to award to petitioner a *pro-rated* portion of respondent's hidden eco-

nomic gains shown by respondent's ultimate sale, the decision of the Court of Appeals for the Third Circuit is believed to be in conflict with the well established principle that a trustee *ex maleficio* is accountable (a) for the economic gains resulting from the use of the involved property and (b) for the economic gains resulting from the re-use of the unlawfully retained profits produced by such property;— and is believed to be in conflict with the following decision of this Court and with the following decisions of Courts of Appeals of other Circuits on this question of law:

Hamilton-Brown vs Wolf, 240 U. S. 251

Early & Daniel Co. vs Pearsons, 36 F. 2d 732, at 735 (5 Cir.)

Computing Scale Co. vs Toledo Computing Scale Co., 279 Fed. 648, at 668 & 673 (7 Cir.);—although in that case a pro-rated share of the infringer's hidden economic gain was not allowed because in that case (unlike the case at bar) there was no evidence upon which to base a pro-rating thereof.

Reason 8: The Court of Appeals for the Third Circuit has rendered a novel decision on an important question of law vitually affecting the practical protection and enforcement of all trademark rights, insofar as it denies petitioner recovery of its damages measured by the impairment of its goodwill (appurtenant to the infringed mark) during a 6-year infringement-affected period, because after the effects of the enjoined infringement had been dissipated the goodwill regained its pre-infringement level;—damages measured by impairment of goodwill having been sought by petitioner only *alternative* to all other measures of damage, *and only* (1) either alternative to the infringing profits (2) or to the extent that damage as measured

by impairment of goodwill was in excess of infringing profits, such *excess* to be recovered in addition to the profits.

Reason 9: The decision of the Court of Appeals for the Third Circuit is in conflict with its own earlier decision affirming the interlocutory decree, insofar as its earlier decision decreed that petitioner should recover three times the amount of the damage found, while its later decision in respect to which writ of certiorari is sought refused judgment for any amount in excess of the profit-award, although such award was in lieu and as a measure of petitioner's damages;—judgment for an amount above the profit-award but not more than three times the amount thereof, as provided by the interlocutory decree, having been sought by petitioner to compensate it (a) for its damages in excess of the profits found, (b) for its litigation expenses which were in excess of the profits found, and (c) for interest on the infringing profits for the period petitioner was deprived of their use.

Wherefore, your petitioner respectfully prays that a writ of certiorari be issued under the seal of this Court, directed to the United States Court of Appeals for the Third Circuit, to the end that this cause may be reviewed and determined by this Court and that the Judgment of the Court of Appeals be reversed in respect to the matters hereinabove set forth.

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BRIEF IN SUPPORT OF PETITION

Argument—Point 1

(Questions 4-7, and paragraphs 1 & 2-b of Summary of Matter Involved)

The decision of the Court of Appeals for the Third Circuit (a) relieving infringer in respect to all profits found from infringer's sales to and over bars, and (b) assuming, without direct evidence, that 50% of the infringingly branded goods were sold to bars, and (c) further relieving infringer in respect to 50% of his profits from the sale of infringingly branded goods in package stores, and (d) correspondingly relieving infringer in respect to damages found; is contrary to the Statute and in conflict with *Mishawaka vs Kresge* (316 U. S. 203) and other decisions of this Court, and constitutes a novel decision on an important question of law vitally affecting the practical protection and enforcement of all trademark rights

Section 19 of the Trademark Act of February 20, 1905 (15 U. S. C. 99) expressly provides* that in assessing the infringer's profits the infringed party shall only be required to prove the infringer's sales and that the infringer must prove all elements of cost or deductions claimed by him.

In *Mishawaka vs Kresge*, 119 F. 2d 316 (6 Cir.) the lower court held *(as did the Master and the lower Court in the case at bar)* that the infringer should account *only* for his

> "profits made from sales 'to purchasers who were induced to buy because they believed the heels to be those of plaintiff and which sales plaintiff otherwise would have made'." (316 U. S. 204),

on the theory that some but less than all of the purchasers of the infringingly-branded goods made their purchases under the trademark-influence or brand-appeal or on the theory that purchasers were in part influenced by things other than the trademark or brand-appeal.

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* As does Section 35 of the Trademark Act of 1946 (the Lanham Act), 15 U. S. C. 1117.

In reversing, this Court not only pointed out that the lower court had mistakenly inverted the burden of proof (as did the Master and the Courts in the case at bar), but also held that a standard of proof substantially higher than a fair preponderance of the evidence is required to relieve the infringer of liability (for any part of the infringing profits found) on any conetntion of "lack of trademark-influence". Upon remand in *Mishawaka vs Kresge* the infringer was required to pay over *all* the profits from the sale of the infringingly-branded goods.

In *Mishawaka vs Kresge* this Court held that *only* if the infringer can *demonstrate* that his "infringement had *no* cash value in the sales made by him" or "that the infringement had *no* relationship to the profits made by the infringer", or if the profits from the sale of the infringingly-branded goods are "demonstrably not attributable to the unlawful use of his mark" can he be relieved of paying to the infringed party the profits made from the sales of the infringingly branded goods.

This is also the rationale of the burden of proof imposed by the statute, supra.

In the case at bar (where the respective goods are far closer to each other and the marks far more dominant than they were in *Mishawaka vs Kresge*, and where the goods were found to be in direct competition with each other) respondent called only its co-infringers who, as retailers, wholesalers and barkeepers, had re-sold its infringingly-branded goods and (a) all of whom testified that they had no way of knowing whether there was or was not confusion in the minds of their customers, and (b) some of whom stated that they did not observe any confusion in the minds of their customers at the time of the sales ten years earlier, and (c) some of whom testified that there had been substantial confusion, and (d) virtually all of whom testified that trademark was the dominant factor in the sale of the goods at all levels of distributive chain (R. 1805-1849).

It is because of the *negative* testimony "*b*" *above*, that the Master ruled that the burden of proof had shifted to the petitioner, and that as petitioner called no witnesses

of its own in rebuttal of such negative testimony (R. 230), that therefore the infringer may be relieved in respect to some part of the infringing profits found;—the Master disregarding the testimony of respondent's witnesses favorable to petitioner on the very point.

What respondent has done in this regard can *of course* be duplicated in *every* trademark infringement case, without exception.

Thus, there can be no trademark infringement case in which the infringer cannot call one or all of his co-infringers or one or all of the tradesmen in the distributive chain who may truthfully testify that they did not observe any confusion in the minds of the customers at the time of the sale, because, of course,

(1) in the purchase of consumer goods (particularly foods and beverages as to which choice between the many competing brands of similar if not identical quality and price is made largely on trademark-influence or brand-appeal, and where no genuine value-judgment or quality-judgment enters into the purchase) there would be no occasion for any customer to give evidence of his confusion no matter how he might have been confused, and

(2) if the customer is confused he would of course not know he was confused, and for that reason would not give any external evidence of his confusion.

From the decision of the Court of Appeals in this case relieving the adjudged infringer of all liability for profits from his sales of the infringingly-branded goods to bars, it would inevitably follow as a matter of law, *but with greater force*, that *Kresge* who sold rubber-heels with the infringing trademark should have been relieved of all liability for infringing profits in *Mishawaka vs Kresge*, 316 U. S. 203, because in that case the infringer's goods were never sold in the same establishment as sold the goods

of the infringed, and there the sale of the infringer's goods was far more dominated by the appeal of the name "Kresge" and the appeal 5c & 10c store type of merchandising on open counters, than could possibly be the case in the sale of liquors, the sale of which is completely dominated by brand-appeal (with or without any testimony as to liquor merchandising).

From the decision in this case on this point, it must also inevitably follow that not only all infringers of liquor trademarks must be relieved, as a matter of law, of liability for their profits from the sale of the infringingly-branded liquor to bars, but *all* trademark infringers must be relieved, as a matter of law, in respect to their infringing profits resulting from the sale of their infringingly branded goods to hotels, restaurants and institutions, and indeed as to all infringing sales except those in which the infringingly-trademarked or infringingly-branded packages are sold to the ultimate lay-consumer without having been opened.

Thus, under the decision of the Court of Appeals in the case at bar anyone could infringe any liquor trademark without financial liability for his infringement so long as he confines his sales to bars and other pouring establishments.

Likewise, under the unprecedented decision in this case, anyone may infringe any of the well-known trademarks used on canned foods, frozen foods, condiments, seasonings, supplies, etc., without any liability for infringing profits, so long as he confines his sales to restaurants, hotels and institutions which serve such foods and products to the ultimate consumer wholly disassociated from the branded package in which they are originally sold.

Such a principle, evolved by the Master and approved by the Court, would seriously impair all trademark rights.

Thus, under this erroneous principle for which there is not a single precedent in any reported trademark case, there is nothing to discourage anyone from marketing an infringingly branded line of "Del Monte" canned goods or "Birdseye" frozen foods or "Timken" roller-bearings,

"Cannon" towels or "Scott" toilet-tissue, etc., so long as he also puts his company name on the package and sells his products only to institutions and not to the ultimate consumer or user.

In no reported *trademark* case under the statute has any court ever relieved the infringer of any portion *less than the whole* of his profits which were found to have resulted from the sale of the infringingly-branded goods. As to any specific package and set of markings, all decisions have either awarded all the profits found or none of the profits;—the latter type of case being exemplified by *United vs Obear-Nester*, 149 F. 2d 671 (8 Cir.), which the Master and the Court below properly held inapplicable to this case.

Thus, in no reported trademark case has any court ever held that while liable for his infringing profits from sales of the infringingly branded goods to one class of trade, the infringer was to be relieved from paying (to the infringed) his infringing profits from the sale of the identically packaged and identically branded and marked goods to another class of trade. Nor has any court in any reported trademark case ever held that the infringer is to be relieved in respect to his infringing profits from such of his otherwise accountable sales as reached the ultimate consumer removed from the infringingly-branded package.

Nor is there any case or suggestion in any case that the infringer can be relieved in respect to his infringing profits from sales to ultimate consumers out-of-the-package, where such sales were as completely dominated by trademark-influence or brand-appeal as the infringer's own witnesses testified was the case in the bar-sales of whiskey.

We submit that the Court's decision in this case to relieve the infringer in respect to his bar-sales not only flies in the face of the evidence given by the infringer's witnesses and its correspondence in this case (R. 1827-1849), but is also squarely in conflict with the Statute (15 U. S. C. 99) and with this Court's decision in the *Misha-*

waka vs Kresge, supra;—upon any interpretation of the word "demonstrably" in this Court's opinion consistent with the decision and end-result reached by this Court.

The decision in this case that (for the purpose of exculpating the infringer with respect to his bar sales) 50% of the national sales of the infringingly-branded liquor may be assumed to have been sold to bars, is erroneous and is not supported by *any* proof whatsoever, because the infringer, though having the burden of so doing, did not even attempt to adduce any evidence on what proportion of his sales *of the infringingly-branded goods* (or of his other branded goods) had in fact been sold to bars and other pouring establishments.

Even assuming, arguendo (notwithstanding the overwhelming testimony and evidence of the infringer's witness and contemporaneous correspondence to the contrary) that the infringer was entitled to be relieved in respect to the profits from his sale of the infringingly-branded goods *to bars*, it was the infringer's burden to prove what proportion or percentage of his infringingly-branded goods had in fact been sold to bars.

The direct proof of this proportion or percentage was simple, and squarely within the infringer's control.

Thus, through either the infringer's invoices* or the invoices of its wholesale-distributors, the infringer could have established the percentage of his infringingly-branded goods actually sold to bars.

However, the infringer neither did this, nor offered the slightest excuse or suggestion for his failure so to do. There was never any suggestion of his inability to do this.

Instead, the infringer relied solely upon three things, namely, (1) the admittedly speculative guess of its paid expert-witness as to what proportion of *all brands of all liquors* of *all manufacturers* are sold to bars in Illinois R. 1751 and T. 8984-8985);—where most bars are a part

* Which were available and which its accountants examined for other purposes of this accounting.

of a combination establishment containing both a bar and liquor-package-sale-counter, and (2) the letter and tabulation of the Controller of the Pennsylvania Liquor Control Board addressed to the infringer's attorney, without such Controller having been called as a witness or produced for cross-examination, which letter and tabulation were admitted over appellant's objections (T. 8922-8924), and which letter and tabulation were to the effect that 48% of *all kinds* of liquors of *all* different *brands* of *all manufacturers* sold through the Pennsylvania Liquor Control Board, were sold to "wholesalers", and (3) a showing as to how many pouring establishments and how many retail package stores there were in the States of Illinois, Pennsylvania, Michigan, Iowa and Ohio (T. 8896-8928), without showing the percentages of sales by either bars or package-stores of the infringing goods or of any other goods.

Of course, the percentage of *all liquors* of *all brands* and of *all makers* sold over bars (as distinguished from package-stores) in any two States, is neither proof of what these percentages are nationally as to *all brands* and *all kinds* of liquors of *all makers*, nor is it proof of what percentage of the infringing Dixie Dew whiskey was in fact sold to bars either in the named States or nationally.

Indeed, had respondent really wanted to make any direct proof on this point, it could have done so with respect to Pennsylvania and other monopoly states by still other direct proof. Pennsylvania (and presumably every other monopoly state) keeps a record of its wholesale sales and of its retail-sales *by brands*, and it would have been entirely possible for respondent to have had the Pennsylvania Liquor Control Board (and the other monopoly state liquor control boards) show from their records what percentage *of Dixie Dew* was in fact sold wholesale and what percentage of Dixie Dew was sold to bars, and what percentage of Dixie Dew was sold directly to consumers or to retailers for resale to ultimate consumers. However, respondent did not attempt this either.

Moreover, in a number of States it was not then legal (nor is it now legal) to sell liquor for on-the-premise consumption or to have any pouring establishments. There are still other States as, for instance, Alabama, in which, while they have cocktail lounges and other establishments which have on-premise consumption, the law requires and the practice is to sell to the ultimate consumer a sealed original miniature bottle of the chosen brand of liquor, and the consumer must open the bottle himself and pour it.

We respectfully submit that if the decision of the Court of Appeals in this case is to stand, it virtually becomes *a matter of law* in all future trademark infringement cases involving liquor trademarks that 50% of the infringingly branded goods were sold to bars without any proof of the actual percent, or, to say the least, the decision in this case would stand as a precedent (and we submit an erroneous precedent) for the proposition that the percentage of the infringing total sales of the infringing brand which went to bars is the same as the percentage of *all liquors* of *all brands* and *all makers* which went to bars throughout the country;—without showing any correlation whatsoever between the infringer's bar-percentage and the bar-percentage of *all liquors* of *all brands* and *all makers.*

The Court's erroneous decision relieving the infringer of paying (to the infringed) 50% of his profits *from his sales of his infringingly-branded goods to retail outlets where they were re-sold in their original trademarked packages,* is without precedent in any reported trademark decision, and is a far-reaching departure from both Statute and the decisional law of trademarks, and is bound to and inescapably will impair all trademark rights.

There is not a single reported trademark case in which the infringer has been relieved of paying (to the infringed) 50% or any percentage of his profits from the sale of his infringingly-branded goods to retail establishments where his goods were re-sold in the original infringingly-branded packages.

There is no reported trademark case in which the

infringer was exculpated with respect to a portion of his otherwise accountable infringing profits upon the *negative* testimony of his wholesalers and retailers given 10 or so years after the event, that they did not observe confusion in the minds of their customers during the period of their contemporaneous sale of the infringingly-branded goods and the goods of the infringed.

As pointed out in *Mishawaka vs. Kresge*, supra, where the infringement has no cash value to the infringer in the sale of the infringingly-branded goods * or the profits from the infringing sales were demonstratably not attributable to the use of the infringing mark,* the infringer need not pay (to the infringed) any of his profits of his sale of the infringingly-branded goods. The facts of the *Mishawaka* case were inherently more conducive to relieving the infringer of liability for profits than are the facts of the case at bar.

People think of liquor products far more in terms of their brand-name or trademark † than they do of a pair of rubber heels costing a quarter or so and purchased either under the aegis of the retail store or on the customer's value-judgment, and purchased with far less frequency and far less for *prestige* than is the case with liquors.

It goes without saying that there is no trademark infringer who could not muster scores of wholesalers or retail storekeepers to testify (especially ten or so years after the event) that they did not observe any confusion in the minds of their customers or that in their opinion there was no confusion in the minds of the retail customers.

If such negative testimony, particularly upon a matter on which they were not competent to testify, namely, the state of mind of the purchasers (R. 1805-1827) is to re-

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* As, for instance, in *United vs. Obear-Nester*, 149 F. 2d 671 (8 Cir.); which the Master and the District Court properly held was not applicable to the case at bar.

† The testimony of respondent's witnesses being that the trademark is the dominant factor in consumers' choice of liquors (R. 1825-1847).

lieve a trademark infringer in respect to any substantial portion of his otherwise accountable infringing profit, then it must follow as a matter of law, from the decision in this case, that no trademark infringer need ever pay over (to the infringed) all or any substantial part of his infringing profits, *unless the infringed party proves that the retail customers or ultimate consumers made each and every purchase or substantially every purchase under the influence of such confusion or the diffused appeal of the involved mark.*

Therefore the decision in this case represents a practical inversion of the statutory burden of proof;—the same inversion for which this Court granted a certiorari and reversed the lower Court in *Mishawaka vs. Kresge;* differing from the *Mishawaka case* only by the negative testimony of co-infringers given ten years later that they did not observe confusion.

Thus, if the negative testimony of the infringer's co-infringing wholesale-distributors and retailers given ten years after the event, that they did not observe confusion in the minds of the ultimate purchasers and that in their *opinion* there was no confusion in the minds of the customers—*all without touching upon the diffused appeal of the involved mark which this Court in the Mishawaka case held was the crux of the matter*—is sufficient to relieve the infringer in respect to his infringing profits, then the *practical and inescapable effect* of the decision in this case is that the burden of proof has been inverted, in conflict with the Statute (15 U. S. C. 99) and in conflict with the decision of this Court in the *Mishawaka vs Kresge* case.

We respectfully submit that it was not the intention of the Statute nor of this Court's decision in *Mishawaka vs Kresge* that the burden of proof should be inverted by any such simple *device* as the mere repetitive and cumulative and *negative* testimony of the infringer's wholesale-distributors and retail-storekeepers (all co-infringers), that they did not observe confusion in the minds of customers and that in their *opinion* there was no confusion in the minds of the customers—with some of these co-infringers

even testifying to actual confusion of substantial proportions during their contemporaneous sale of the infringingly-branded goods and the goods of the infringed, and with virtually all such co-infringers testifying that the sale of liquors was substantially dominated by trademark-influence or brand-appeal.

It is therefore respectfully submitted that the decision of the Court of Appeals on this point is not supported by *any* legal proof and is in conflict with the Statute and with *Mishawaka vs Kresge* and is without precedent in any reported trademark case.

The principle of *United States vs Obear-Nester*, 149 F. 2d 671 (8 Cir.), is quite different and inapplicable here; —that case being distinctly a case in which it was demonstrated that the infringement had **no** cash value to the infringer and that the profit from the sale of the infringingly-marked prescription bottles was **not** attributable to the use of the infringing mark; the consumer being *inherently* never influenced by the mark on the bottom of the bottle when ordering and buying prescription medicine.

However, we have found no reported case in which a *trademark* infringer was ever relieved in respect of 50% *or any other percent* of his profits from the sale of his infringingly-branded goods to retail establishments *where they were re-sold in the original package* (while accounting for the other 50% of his profits from sales to the same class of trade or to the same outlets) either on the lower Court's theory in the case at bar or on any other theory.

The law has been conspicuously the other way, as, for instance, *Wrigley vs Larson*, 20 F. 2d 830 (7 Cir.) and 277 U. S. 97, where Wrigley's *entire* profits from 4 years' sale of its product marked "Wrigley's Doublemint", amounting to approximately $1,300,000.00, was awarded to Larson on account of infringement of Larson's unregistered trademark consisting of a red-&-green label-design—in respect to Wrigley's sales largely in territories where Larson had never sold any of his product marked "Larson's Wintermint".

Argument—Point 2

(Questions 1 & 2, and paragraphs 2-a, 2-c & 7 of Summary of Matters Involved)

The decision of the Court of Appeals for the Third Circuit barring recovery of the greater of profit or damage (or the recovery of profit plus the excess of damage over profit), and its decision of "election" between the profit and damage prior to their determination, are contrary to the Statute and in conflict with the decision of this Court in *Mishawaka vs Kresge* and with this Court's decisions in other cases and is also in conflict with the decisions of the Courts of Appeals of other Circuits, and is in conflict with the earlier decision of the Court of Appeals for the Third Circuit in the same case affirming the Interlocutory Decree awarding and directing an accounting of profits and damages

Section 19 of the Trademark Act of February 20, 1905 (15 U. S. C. 99) expressly provides, * that the infringed party shall recover the infringer's profits *and* his own damages.

Petitioner has sought to recover only infringing profits plus the excess of damages over profits, or damages in lieu of profits.

Judge Maris' Interlocutory Decree (R. 106) was fully in accord with the statute and was affirmed by the Court of Appeals in its 1939 decision (R. 109-117).

Hamilton-Brown vs Wolf (240 U. S. 251, 259):

"In this country, it is generally held that in a proper case both damages and profits may be awarded."

See also *Nims' "Unfair Competition and Trade-Marks"* (4th Ed. 1947, page 1331).

In *Fahey vs. Senior*, 252 Fed. 579, 581 (3 Cir.), the Court held:

"Therefore, since the defendants have infringed the plaintiff's trademark, *profits as well as damages* are recoverable, and the decree should be modified accordingly."

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* As does Section 35 of the Trademark Act of 1946, (the Lanham Act) 15 U. S. C. 1117.

In *Brunswick-Balke-Collender Co. vs American Bowling & Billiard Corp.*,—F. Supp. —; 60 PQ 294, at 296 (DC SD NY; 1-17-43; modified on other grounds, 150 F. 2d 69 (2 Cir.; 6-11-45), the Court stated:

> "The plaintiff . . . is entitled to . . . *defendant's profits* if it be unable to prove they were not earned independently, *Mishawaka vs Kresge*, 316 U. S. 203, *and to damages if it can prove any were sustained.*"

In *Aladdin Mfg. Co. vs Mantle Lamp Co.*, 116 F. 2d 708, 715-8 (7 Cir.), the Court likewise held that the trademark owner was entitled to recover damages due to *loss of business*, in addition to the infringer's profits, in a situation where the respective goods were much more different than in the case at bar.

Profits from infringing sales and damages due to lost sales are distinct, as pointed out in *Dowagiac vs Deere*, 284 Fed. 331 at 338 (8 Cir.): "The two are separate and distinct, and may constitute separate causes of action. The distinction is pointed out and made clear in the following cases: In *Underwood Typewriter Co. v. E. C. Stearns & Co.*, 227 Fed. 74, 82 (quoting from citation)".

We respectfully submit that the Court below erred in ruling on July 15, 1949, at R. 278 (adhered to and extended on August 21, 1951, at 293a-294a, and in the final Judgment) that

> "In view of the election to recover Century's profits, Continental is not entitled to recover, as an element of damage, the profits which it would have made upon the sales which were lost to it as a result of Dixie Dew competition". (279a)

The Court based its above-quoted ruling upon *Mishawaka vs Kresge, supra.*

We believe that the *Mishawaka case* does not stand for the proposition that an award of profits precludes the re-

covery of damages, as pointed out in *Brunswick vs American*, quoted above, which followed the Mishawaka case, and also in *Stetson vs Stetson*, 58 F. Supp. 586, at 590 & 596 (DC SD NY 1944) which followed the *Mishawaka case*.

In *Oil Well Improvement Co. vs Acme Foundry & Machine Co.*, 31 F. 2d 898, at 900-2 (8 Cir.) the Court in addition to awarding profits, *also awarded the damages* claimed and suffered *as a result of profits lost by claimant due to the infringement*. In that case, as in the other cases cited, the Court did not limit the recovery of damage to that part of claimant's lost profits which were in excess of the infringer's profits, but made a damage-award measured by the entire amount of claimant's lost profits.

On April 1, 1940 (R. 815) petitioner filed its *Statement of Damage* showing and claiming $2,540,369.32 due to sales-depression and price-depression.

Either the profit-accounting or damage-accounting had to come first, as the two could not practically run concurrently. There was no burden on petitioner either under the Interlocutory Decree, or otherwise, to forecast whether the profit-accounting or the damage-accounting would result in the greater judgment in its favor.

This further demonstrates the fallacy of the theory of *election*, even if it were assumed (contrary to the statute, authorities and Interlocutory Decree) that profits and damages are mutually exclusive.

If, *arguendo*, profits and such damages were mutually exclusive, the rule would then have to be that claimant is entitled to recover the one which would result in the larger judgment;—the only thing sought by petitioner below and seeks here.

Argument—Point 3

(Question 9, and paragraph 5 of Summary of Matter Involved)

The decision of the Court of Appeals for the Third Circuit is in conflict with the decision of this Court in *Wrigley vs Larson*, 277 U. S. 97, and with the decision of the Court of Appeals for the Third Circuit in another case and with the decisions of Courts of Appeals of other Circuits and with the decisions of District Courts in other Circuits, on the matter of interest on the infringing profits between their accrual and the date of their determination

All decisions found respondent guilty of infringement, and that such infringement was wilful and deliberate. One hundred per cent of the infringement took place after notice. Over 75% of the infringement took place after the first tribunal held the accused marks to be confusingly similar to petitioner's mark.

Therefore, interest on the retained profits should have been awarded from the dates when such profits accrued.

The Court of Appeals for the Third Circuit so held in *Duro vs Duro*, 56 F. 2d 313 (at 316-317).

To the same effect is *John B. Stetson Co. vs Stephen L. Stetson Co.*, 58 F. Supp. 586, at 596 (DC SD NY 1944), and *National vs Dayton*, 95 Fed. 991, at 996 (CC SD Ohio, Judge Taft).

Upon the facts of this case the Master awarded interest on the retained profits from the end of each year in which such yearly profits accrued (R. 205-9) and fixed the rate at 5% on the basis of *Larson vs Wrigley*, 20 F. 2d 830, and 277 U. S. 97, and *Stromberg vs Detroit*, 44 F. 2d 958 (7 Cir.);—invested capital and borrowed money used in respondent's business having returned an average *visible* net profit of 51% *per annum* before and 31% *per annum* after income taxes and an average *over-all* net profit of 124% *per annum* before and 104% *per annum* after income taxes, for each of its 9 & ¾ years.

In its Opinion (R. 282-290) reviewing the Master's Report, the Court did not discuss the Master's allowance of interest on the retained profits. The only reference to any

interest (in respect to the recovery) was in the last 3 lines at R. 289, where the Court said:

> "Interest on Dixie Dew profits will be allowed at the rate of 6% per annum from the date of the filing of the Master's report."

Nevertheless the Judgment did not include the interest awarded by the Master on the retained profits for the period between the date of the accrual of such profits and the date of the Master's Report, and the Opinion of the Court of Appeals is silent on this matter.

Argument—Point 4

(Question 8, and paragraph 4 of Summary of Matter Involved)

The decision of the Court of Appeals for the Third Circuit is in conflict with the well established principle that a trustee *ex maleficio* is accountable for hidden economic gains (in addition to economic gains or profits shown by its book-entries), and is in conflict in this respect with the decisions of the Courts of Appeals of other Circuits

During the 9¾ years of its operation respondent returned to its owners $11,840,128.42 of *visible* net profits shown by its ten annual statements;—of which $3,532,-051.86 was made during the 4 years when Dixie Dew represented ⅓ of the total volume of all brands of case-goods.

The aforesaid *visible* net profits of $11,840,128.42 represent a return, for each of the 9¾ years, of 51% per annum before taxes and 31% per annum *after income taxes*, on the total of invested capital *plus* loans used in the establishment and operation of respondent's business.

The retained infringing profits accrued in fiscal years 1936 to 1939 were used as part of respondent's working capital (along with its invested capital and loans), during all years following the respective dates of the accrual of such infringing-profits, up to the time respondent was sold.

Hamilton-Brown vs Wolf (240 U. S. 251, at 259-260):

"The infringer is required in equity to account for and yield up his gains to the true owner, upon a principle analogous to that which charges a *trustee* with the profits acquired by wrongful use of the property of the *cestui que* trust.

And profits are then allowed as an equitable measure of compensation, on the theory of a trust *ex maleficio*."

As *trustee ex maleficio*, respondent should have been required to pay to petitioner, its *cestui que trust*, the profits which respondent made on the *retained* infringing-profits; —at one of the above rates (51% or 31%) at which it made profits on its stockholder's (Allied's) monies.

Moreover, when its single stockholder (Allied) sold respondent in 1943, it realized an *additional* theretofore hidden $16,750,000.00 economic-gain or profit from its 9¾ years operation of respondent.

Respondent's secretary & treasurer (and the chief executive officer of its single stockholder, Allied) admitted that respondent's size and value at the time of its sale in 1943 would have been less than what it in fact was, had respondent not had the benefit of Dixie Dew sales during the 4-year period (R. 1367).

He recognized that respondent's book-value as shown by the annual statements, was at all times substantially less than its real economic value (R. 1073-4) and that a part of this difference between its book-value and its *real* economic value is good-will, and that the real economic value and good-will value of the business at any time is best determinable by its sale, and that the good-will is also capable of being estimated by a formula recognized in accounting as proper and fair for the appraisal of good-will (R. 1075-1076), and that the value of good-will is dependent largely on the earning power of the business.

He also recognized that respondent's position at the threshold of its business was precarious, because it had no pre-repeal-distillation whiskies (R. 1345) and it had no trademarks with any popular appeal (R. 1066, 1070, 1345-

1346). He recognized that some trademarks are inherently better than others (R. 1066-1070).

It was essential to respondent's existence that it should have at least one fast-selling popular brand whiskey with a catchy trademark, because it was the means of making its entire line more acceptable to the trade (R. 1069-1070).

While respondent had other brands of whiskies at a price lower than Dixie Dew, Dixie Dew out-sold them all (R. 1070-2) and in most cases Dixie Dew paved the way with respondent's distributors for respondent's higher-priced brands (R. 1070). Respondent's Dixie Dew was a young-age whiskey and was the same whiskey it sold as its still lower priced brands (R. 1362). Respondent was influenced in its selection of and decision to market (or not market) its various brands, by its estimate of *consumer-preference* in respect to brands (R. 1362-4).

The benefits of Dixie Dew's success in achieving "listing" in state-monopoly store systems, through its infringement-derived prestige and popularity with the consuming public, continued to accrue to respondent even after its sale of Dixie Dew was discontinued at distillery level (R. 1364-1365 and R. 1723-4).

Dixie Dew's success in achieving the much coveted but difficult-to-get "a listing" in state liquor store systems (as well, of course, its success in similarly achieving acceptance by the important large distributors in non-monopoly states) was intimately related to the future of the company, as it was essential for respondent to establish and maintain itself in the best channels of distribution, throughout the 4-year period under profit-accounting, for the sake of its future operations (R. 1365). Once having so established itself, it had a permanent advantage over other distillers not so established (R. 1365-6) and any failure to so establish and maintain itself in the channels of distribution, would have "seriously handicapped" its growth (R. 1366).

It was the then judgment of respondent's management that the sale of the hundreds of thousands of cases of Dixie Dew would enhance the *overall growth* of respondent, as a

whole, and that respondent was rendered more valuable at the time of its sale in 1943 (R. 1367) by having had the Dixie Dew sales-volume.

Respondent's counsel also conceded that a substantial part of the $16,750,000.00 of additional hidden profit realized upon the sale of respondent in 1943 was represented by this goodwill (R. 1225-6), which Dixie Dew helped to build. Some of this additional hidden profit was represented by inventory undervaluation (i.e. valuing at cost, whereas the market-value was always higher) and by inventory appreciation, built up in part with the infringing-profits retained and used as additional working capital.

For its internal policy-making process, respondent had had experts (R. 1226) make a breakdown showing the various components and the amounts thereof, which made up this additional hidden profit of $16,750,000.00 (R. 1224), but refused to produce this breakdown (R. 1225-1226);—leaving it to petitioner (or the Court) to have a computation made of the share of this hidden profit allocable to the 4-years under accounting and from there allocable to Dixie Dew.

This may be allocated in the ratio of this hidden profit to the visible profit for the various years, and the portions so allocated to the four years under accounting in turn allocated to Dixie Dew in the ratio of Dixie Dew profits to all-brand profits or in the ratio of Dixie Dew sales to all brand sales. A prorated or allocated share of such hidden profits is $928,117.50 (R. 591a) based on the ratio of sales volume within the four years. By the underlying figures available in the record, an allocable share of this hidden or terminal profit can readily be computed on any one of several other bases of allocation.

Scott, in his treatise entitled "*Money Wrongfully Mingled with Other Money*", published in *27 Harvard Law Review, 125* (1913) (Reprinted in 1945 in the Harvard Law Review Association's "*Selected Essays on the Law of Trusts*"), states the matter as follows:

"The constructive trust remedy . . . seems also justifiable on principle . . . since it is his money that earned the profit, and since he ran the risk of losing his money (although it is true that even if his money had been lost he would still have had a personal claim against the wrongdoer), *it seems just to give him the profit.* Moreover, it is a wise policy *not* to allow the wrongdoer to keep the profit of his own wrong, although the profit is not strictly at the expense of the claimant.

"The same principle should apply where the claimant's money is mingled with that of the wrongdoer, and is therefore only partly instrumental in earning the profit. The *claimant should be entitled to a share of the profit, in so far as his property* * *contributed to earning the profit. It has been* said that in such case he should be confined to a lien. But, *by the weight of authority, the claimant is given the option* of a lien on, or a pro rata share of, the product (pp. 126-9)."

See also Scott's book "The Law of Trusts", Section 516 (at pp. 2464-5) and Section 517.2 ,at p. 2479), and *American Jurisprudence*, in Section 256 of the *Digest of the Law of Trusts*, and *Restatement of the Law of Trusts*, Section 202(h) at pages 540 & 550.

To like effect is *Primeau v. Granfield* (CC SD NY) 184 Fed. 480 (reversed on other grounds at 193 Fed. 911), and *Early & Daniel Co. v. Pearsons* 36 Fed. 2d 732, 735 (5 Cir.).

The applicability of the foregoing principles (a) to infringing-profits retained by the infringer and (b) to the over-all economic gain, including good-will, accuring to the infringer's business, from the infringement, was recognized in *Computing Scale Co. vs Toledo Computing Scale Co.* 279 Fed. 648, 668 & 673, although in that case a pro-rated share of the infringer's hidden economic gain was not allowed

* Here (a) the retained infringing-profits, and (b) the infringement-derived good-will of Dixie Dew and *its contribution to respondent's ultimate growth.*

because in that case there was *no* evidence upon which to base an allocation thereof.

In the case of bar there was clear evidence from the infringer's own executive that the infringement contributed to the overall ultimate growth of the infringer, and the value of that overall growth was fully established (LX's 285 & 525, at R. 676 & 739).

If there is any essential element of proof which may be said to be missing in this regard, it is only because of the infringer's refusal to produce its experts' breakdown showing the components and the respective amounts thereof which made up the additional $16,750,000.00 hidden profit from the 9¾ years' operation, though the production thereof was timely demanded and its availability was admitted. Having withheld this evidence, it should not be heard to argue that an apportionment of this hidden profit to the 4 years under accounting, and therefrom to the infringing sales, would be too speculative to permit an award in respect thereto.

Insofar as any part of the hidden or terminal profits are a reflection of the yearly, overall or ultimate earnings *of the re-investment of previously-made profits*, or a reflection of the appreciation of whiskey-stocks, the rules of law applicable to a trustee's accountability for profits and gains realized on the trust fund, likewise fully apply.

In so far as any part of the hidden or terminal profits are a reflection of the goodwill of a going business, petitioner is entitled to a pro-rated share of such profits because part of the general goodwill of respondent's business, as reflected by its ultimate size or economic stature, was clearly due to the influence of the Dixie Dew sales-volume upon its overall business in the four years under accounting and upon the subsequent years. The business-volume and general goodwill and recognition in the field during the subsequent years were necessarily based upon respondent's business during the accounting years, because the evidence

clearly shows that respondent gained its entree to the desirable channels of distribution, for all its products, through its use of Dixie Dew as a "leader" and that it built up its overall sales-volume with the aid of such "leader".

Were respondent not held to account for a prorated share of its hidden profits, and were it permitted to have liability limited by the artificial assumptions and year-end cut-off (on which conventional annual audits and annual profit-and-loss statements are based), notwithstanding the subsequent and yet timely revelation of large additional profits made out of the same business, and hence attributable (prorata) to the infringement, respondent would be retaining a part of the profit which it in fact made as a result of its infringement.

As pointed out by Scott, in *"The Law of Trusts"*, in Section 82.4:

> ". . . Where the business is held in trust, the goodwill is subject to the trust and the trustee is accountable for it. (Citing Farey v. Cooper (1927) 2 K. B. 384)."
>
> "Where a *trade-mark* is used in connection with a business, it is one of the assets of the business, and if the business is held in trust, the *trade-mark* is a part of the trust property. (Warren v. Warren Thread Co., 134 Mass. 247, 1883).",

and the *Restatement of the Law of Trusts*, Section 82(c) states:

> "The *good-will of a business* or a trade-mark *can be held in trust.*"

This being so, the rules applicable to trustees must necessarily obtain in all transactions involving goodwill as trust property. Hence, any profit or gain realized by a trustee as a result of the exploitation of such good-will must be accounted for by him to the *cestui que trust.*

Argument—Point 5

(Question 10, and paragraph 5 of Summary of Matter Involved)

Insofar as it denies petitioner recovery of its damages measured by the impairment of its goodwill during the infringement-affected period merely because the goodwill recovered to its pre-infringement level after the effects of the infringement were dissipated, the decision of the Court of Appeals for the Third Circuit is novel on an important question of law vitally affecting the practical protection and enforcement of all trademark rights

The generally accepted method or formula for computing the value of goodwill appurtenant to a trademark or brand, is what is usually referred to as the *New York formula.**

The *New York formula* defines the value of the goodwill of a trademark as of any particular date as "the average net annual earnings from the trademarked goods over a number of years immediately preceding such date, minus a fair annual interest-return on the average annual net investment employed to produce such net earnings, multiplied by a figure known as the "years of purchase";—the years-of-purchase being a number depending on the reasonable likelihood of the business and the public acceptance of its so trademarked product continuing a number of years (R. 272-273).

By this accepted method or formula, the value of the goodwill appurtenant to Dixie Belle was computed as of December 31, 1936 and as of December 31, 1941, respectively, as shown in petitioner's Exhibit D-6 (R. 798).

This shows that the loss of goodwill between these two dates is $2,236,280.00 based on the very conservative *5 years purchase.*

While Dixie Belle sales-volume and price-level both rose commencing in 1942 (after the effects of the infringement were dissipated), its average annual sales-volume in the

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* See Nims' "The Law of Unfair Competition and Trademarks", 4th Ed., 1947, pages 146-148.

next 8 years rose only to slightly over what it had been prior to the infringement;—in relation to national gin consumption.

Had Dixie Belle's sales-growth not been interrupted by a 6½-year infringement-induced sales-depression, its sales-volume during the subsequent 8 years would have been greater than it actually was.

However, even if it be assumed (as the Master and the Court erroneously assumed: R. 273) that in the next 8 years (1942-1949) Dixie Belle regained all of its pre-infringement goodwill, it is nevertheless a fact that during the 5 years for which loss of goodwill was computed, there was an impairment of goodwill in the above amount.

The most that can be said in favor of the Master's and the Court's position (at R. 273) is that the loss or impairment of goodwill during this 5-year period is to be considered in lieu of the total damage due to sales-depression and price-depression during the 4-year profit-accounting period and the 2½-year infringement-affected period thereafter. Petitioner sought recovery for impairment of goodwill only alternative to all other measures of damage and only alternative to profits.

Therefore damages should have been awarded either on the basis of sales-depression and price-depression during the 4-year and 2½-year periods, or on the basis of the loss of goodwill between the two dates indicated (or between any other two dates which the Court may deem appropriate; —the figures being available in the record for any alternative computations of the value of the goodwill as of any two dates).

However, we respectfully submit, that it is inconsistent to deny (a) damage due to sales-depression and price-depression during the 6½-year period, *and also to deny* (b) damage due to loss or impairment of goodwill appurtenant to the infringed trademark;—where, as here, denial of recovery for goodwill was based merely upon the fact that after the effects of the infringement were dissipated, goodwill regained its pre-infringement level.

Argument—Point 6
(Question 3, and paragraph 6 of Summary of Matter Involved)

Insofar as it refused judgment for an amount in excess of the profits awarded in lieu and as a measure of damages, the decision of the Court of Appeals for the Third Circuit is in conflict with its own earlier decision affirming the Interlocutory Decree directing judgment for three times the amount of the damage found

The Court based its disallowance of damage due to lost sales* and is disallowance of damage due to the impairment of goodwill, upon the theory that the award of profits is in lieu of and measure of petitioner's damage.

Therefore, the Judgment was fundamentally inconsistent with paragraph 12 of the Interlocutory Decree insofar as the Judgment denies trebling of the amount found; which though called "profits" was awarded in lieu and as a measure of damage,—petitioner having made a timely Motion for such trebling (R. 617).

Such trebling (or some lesser increase over the amount found) was required for the reasons set forth in paragraph 6 on page 13, supra, and in Question 3 on page 14, supra.

CONCLUSION

In conclusion it is respectfully submitted that for the reasons stated in the petition and in this brief, a writ of certiorari should be granted in this case, so that the basic and important questions of trademark law which the Court of Appeals has here decided in conflict with the statute and with the decisions of this and other Courts and in conflict with the interlocutory decree in this case, may be reviewed and the law thereby clarified.

Respectfully submitted,

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* Both during the 4-year period of the profit-accounting as well as during the 2½-year infringement-affected period thereafter.

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IN THE

Supreme Court of the United States.

OCTOBER TERM, 1953.

No. 419.

CONTINENTAL DISTILLING CORPORATION,
Petitioner,

v.

CENTURY DISTILLING COMPANY,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT.

BRIEF FOR RESPONDENT IN OPPOSITION.

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Opinion of the District Court sur Offer of Proof, July 15, 1949	278a-281a	86 F. Supp. 503
Opinion of the District Court sur Exceptions to Master's report (Parts I and II), December 8, 1949	282a-290a	(not reported)
Opinion of the District Court sur Reargument, March 6, 1950	291a-292a	89 F. Supp. 684
Report of the Special Master, Part III, Damages Sustained by Continental by Reason of Century's Use of the Marks "Dixie Dew" and "Dixiana", February 21, 1951	256a-277a	
Opinion of the District Court sur Objections to Part III of the Master's Report, August 21, 1951	293a-294a	(not reported)

	Record Page	*Reported*
Opinion of the District Court sur Allowance of Counsel Fees and Other Expenses of Litigation, November 13, 1951	295a-297a	102 F. Supp. 39
Opinion of the Court of Appeals for the Third Circuit, June 17, 1953	1850-1866	205 F. 2d 140

JURISDICTION.

The reference in the Petition to the Judicial Code as amended adequately sets forth the jurisdictional requisites. The judgment of the District Court was entered December 20, 1951 (R. 298a). It was affirmed by the Court of Appeals in an opinion dated June 17, 1953.

QUESTIONS PRESENTED.

1. Whether the Court of Appeals and the District Court correctly concluded that a trade-mark infringer, in showing the extent to which net profits earned on the infringing product were not due to the infringement, is only required to do so by the usual fair preponderance of evidence rule in civil cases.

2. Whether the Court of Appeals was correct in holding that the District Court did not abuse its discretion or reach erroneous conclusions of fact in:

(a) Denying petitioner treble the amount of the profit award as damages.

(b) Denying petitioner its litigation expenses and counsel fees.

(c) Allowing petitioner interest on the award of profits from the date of the filing of the Master's report, and not from the date of the infringement.

(d) Ruling that petitioner could not recover both profits and damages for lost sales.

(e) Ruling that the facts found by the Master did not justify a recovery by petitioner of "terminal profit" or damage to its good will.

STATUTE INVOLVED.

This suit arose under the Trade Mark Act of 1905 (33 Stat. 724-730, formerly 15 U. S. C. §§ 88-105) and not the Trade Mark Act of 1946 (R. 1853, footnote 6). The pertinent provisions of the 1905 Act are printed in Appendix A, *infra*, pp. 29-30.

Petitioner at p. 14 implies that the case requires construction of the analogous section of the new Trade Mark Act (60 Stat. 439, 15 U. S. C. § 1117). This section of the new Act, however, contains the following provision, which is absent from the old:

> "If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case."

A sizeable money judgment in favor of petitioner and against respondent was awarded in this case (R. 298a) because respondent could only convince the Master that 75% of its net profits on its Dixie Dew whiskey were not attributable to any infringement of petitioner's Dixie Belle gin (R. 250a-253a). A photograph of the two marks as used on the products of the parties is printed in Appendix B, p. 31, *infra* (it is respondent's Exhibit 101, also printed at R. 504a, and introduced at p. 5311 of the typewritten notes of testimony). A study of this photograph, which shows that both the marks and the goods are quite dissimilar in appearance, indicates that there might very well have been no profit award at all under the liberalizing provision of

the new Trade-Mark Act just quoted. The importance of this case cannot be enhanced, therefore, by the assertion that the result would have been the same if the new Act had been controlling. Only the old Trade-Mark Act is involved, as the Court of Appeals pointed out (R. 1853).

STATEMENT.

Respondent, shortly after the repeal of Prohibition, sought to register in the Patent Office its trade-mark Dixie Dew for use on one of its many whiskey products, and Dixiana on one of its gins[1] (R. 10a, 20a). Petitioner opposed these registrations because of its previously registered trade-mark Dixie Belle, which it used on one of its gin products (R. 12a, 22a). Petitioner prevailed in the Patent Office (R. 35a, 37a), whereupon, in 1937, respondent, which had been manufacturing Dixie Dew whiskey since 1935 (R. 219a), brought suit against petitioner for a determination of its right to register its mark (35 U. S. C. § 63, 27 Stat. 436; R. 39a).

Petitioner counterclaimed, alleging infringement and demanding an injunction and an accounting. Petitioner prevailed both in the District Court and in the Circuit Court of Appeals, and an accounting was awarded (R. 94a, 106a, 109a-117a). This Court denied certiorari on February 12, 1940, 309 U. S. 662.

The accounting period extended from June 30, 1935 to the fiscal year ending June 30, 1939, which was the four-year period during which respondent had manufactured and sold Dixie Dew whiskey. The accounting itself began in April 1940 and continued through April 1950. The transcript of testimony before the Master contains 9966 typewritten pages.

In Part I of his report (R. 128a-216a) the Master determined the total net profit realized by respondent on its

1. So little Dixiana gin was manufactured by respondent that it has been treated as *de minimis* throughout this case (R. 132a, 214a, 215a, 313a-315a).

sales of Dixie Dew whiskey. This portion of the report dealt with the highly technical accounting problems encountered in determining what items might properly be deducted as costs in arriving at Century's net profit on Dixie Dew whiskey.

In addition to the accounting testimony, respondent presented to the Master testimony of liquor merchandisers of various categories, in both monopoly and open states, and of experts in the field of liquor merchandising, to prove that the net profits which respondent realized on its sales of Dixie Dew whiskey were not attributable to its infringement of petitioner's Dixie Belle gin. Part II of the Master's report (R. 217a-255a) contains his analysis of this testimony and of the testimony which petitioner adduced in rebuttal. On the basis of all of such testimony, the Master concluded that respondent had sustained the burden of proving that 75% of its profits on Dixie Dew whiskey were not attributable to its infringement of petitioner's Dixie Belle gin trade-mark. At R. 232a-234a, the Master discussed the credibility of the witnesses. At R. 236a-239a, he discussed the factors indicating confusion as a result of the infringement. At R. 240a-246a, he discussed those indicating that there was none. At R. 250a-252a, he indicated the rationale by which he arrived at his result; namely, that

> "*the likelihood of confusion or deception* found by the Court in its judgment on the similarity of the trade-names involved in this action *could not possibly have been a palpable, perceptible or tangible factor in more than twenty-five (25%) per cent of Century's sales of Dixie Dew.* . . .
>
> "It is quite likely that the actual percentage of deception or confusion, or susceptibility thereto, was considerably less. If the equities and burdens of proof were reversed or could be eliminated from considera-

tion, the Master would have no hesitation in reducing the resulting figure substantially."

These conclusions were sustained by the District Court and by the Court of Appeals (R. 29a, 1863-1864).

Petitioner attempted to prove damage due to reduction in the price of Dixie Belle gin due to the infringement, damage due to impairment of good will, and damage due to sales lost after the infringement had ended. The Master, in Part III of his report, found that petitioner had failed to prove the first two of these items, but "despite the dearth of evidence relating to the adverse effect of Dixie Dew's infringment" (R. 1864), awarded petitioner damages for sales lost during 2½ years after the infringement ended.

The District Court reversed on the ground that such a recovery would result in a duplication of damages, since the profits which had been awarded in lieu of lost sales included sales lost both during and after the infringement (R. 293a-294a).

Judgment for petitioner was entered in the District Court on December 20, 1951, from which both parties appealed. The judgment was affirmed by the Court of Appeals (R. 1850-1866).

To the extent that the material appearing on pp. 2 to 10 of the petition for certiorari is intended as petitioner's "statement", attention should be drawn to certain instances in which the proceedings below do not appear to have been adequately summarized.

On pp. 5 and 6, petitioner has printed in italics portions of the Master's report out of context. The italics are not the Master's. Although a reading of these pages might give the contrary impression, this is a case in which there has been no fraud or palming off. Actually, the Master found that respondent had been scrupulously honest in the way it had kept its books (R. 133a-137a) and had concealed nothing in the way of evidence that might have cast light on the questions before him (R. 137a-138a). He found that

respondent did not start making Dixie Dew whiskey with the intention to encroach on Dixie Belle gin. He also found that respondent continued the manufacture of Dixie Dew whiskey "in reliance upon its confidence in the ultimate successful termination of the litigation pending in the Courts with respect thereto" (R. 220a).

The District Court likewise commented on respondent's conduct. Petitioner at p. 6 did not complete the quotation at R. 285a, which goes on to say:

> "It [respondent's conduct] was not fraudulent if 'fraudulent' be taken, as it generally is, to mean an intent to deceive the public as to the nature or origin of the goods. In other words, I do not believe that Century intended or expected anyone to buy Dixie Dew bourbon whiskey under the impression that they were buying Dixie Belle gin. Nor do I believe that Century intended or expected that the public, in buying Dixie Dew, would think that they were buying a product of the Continental Distilling Company although this result may actually have occurred in a few negligible instances."

At R. 297a, the District Court, in ruling that petitioner could not recover counsel fees or certain litigation expenses, said:

> "In this case, although the defendant's conduct was wilful in the sense that it was not innocent or inadvertent, it was not (and I have so found) fraudulent. There were no circumstances of palming off or express malice, and no deliberate attempt to destroy the plaintiff's business. *The worst that can be said about the defendant's conduct is that it mistook its legal rights* and stubbornly clung to its ill-advised course of conduct after it became apparent that it would be wise to give it up." (Emphasis supplied.)

Contrary to the assertions at the foot of p. 6 and top of p. 7 of the petition, the Master's conclsions on which he based the findings in Part II of his report were not arrived at on "assumption" or "negative testimony", as his report itself will disclose (R. 217a-255a). They were squarely based upon the proof offered by respondent, and petitioner has not ventured to assert that there was no evidence to support his findings.

On p. 9, petitioner twice asserts that the price of Dixie Belle gin was depressed by reason of the infringement. This is not supported by the record. The Master specifically found that petitioner's evidence on this was "entirely inadequate" (R. 264a). Nowhere in the record has there been any finding to support the assertion that petitioner's damage due to lost sales during the infringement period was $755,609.74 or any other amount.

Likewise, petitioner failed to prove damage to its good will resulting from the infringement (R. 274a), and its statement to the contrary at the top of p. 10 is entirely without support in the record.

ARGUMENT.

Even a strained construction of the rulings of the Court of Appeals cannot bring this case within the requirements that this Court has laid down for granting a writ of certiorari. *Supreme Court Rule 38(5)*. The case involves no general principle that requires or deserves review by this Court, and the ultimate questions relate merely to the application of accepted principles of the law of trade-mark accounting to the particular facts here involved. Otherwise, respondent would have sought certiorari, having contended throughout that, on the facts, there should be no award of profits or damages.

Petitioner complains almost entirely about the factual conclusions reached by the Master. Nowhere in the petition does petitioner point to the opinion of the Court of Appeals and show specifically how that opinion is erroneous. In fact the opinion is not even mentioned in petitioner's statement (pp. 2-10). The reason for this is clear: the Court of Appeals did little more than sustain the Master's fact findings, which had been sustained by the Court below.

I. This Case Presents No Question That Requires or Deserves Review by This Court.

On pp. 17-21 petitioner advances various reasons why the writ should be allowed. The decision of the Court of Appeals is said to be in conflict with those of this Court and with other Courts of Appeals in various respects, and to present novel and important questions of law. Petitioner's brief elaborates few of these assertions, but a scrutiny of all the cases cited will show either that they were decided on their own particular facts, that they are in accord with the case at bar in the respect in which they are alleged to be in conflict, or that they are completely irrelevant to the problem. Due to the complexity of patent, trade-mark and copyright accounting cases, the courts which

decide them are always reluctant to enunciate rigid rules which are applicable to all situations. See for example the remarks of Mr. Justice Holmes on the trustee *ex maleficio* theory, in *Larson Co. v. Wrigley Co.*, 277 U. S. 97, 99, quoted by the District Court at R. 286a. Thus, some of the cases cited by petitioner involved recovery of damages in addition to profits, and some did not. Much depended in each case on whether fraud was involved, or palming off. Some of the cases cited involved gross fraud and even contempt of court, and in some, trade-mark owners were put to great expense to counteract the effect of the infringement. None of those factors are involved here.

In *Mishawaka Rubber & Woolen Manufacturing Co. v. S. S. Kresge Co.*, 316 U. S. 203, Mr. Justice Frankfurter, speaking for this Court, said at pp. 206 and 207:

> "If it can be shown that the infringement had no relation to profits made by the defendant, that some purchasers bought goods bearing the infringing mark because of the defendant's recommendation or his reputation or for any reason other than a response to the diffused appeal of the plaintiff's symbol, the burden of showing this is upon the poacher. The plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his mark. Cf. *Straus v. Notaseme Co.*, 240 U. S. 179, 183; compare *Sheldon v. Metro-Goldwyn Corp.*, 309 U. S. 390; *Westinghouse Electric Co. v. Wagner Mfg. Co.*, 225 U. S. 604. The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark. *Hamilton Brown Shoe Co. v. Wolf Bros.*, 240 U. S. 251."

In view of the fact that there is in this case no element of palming off or unfair competition, and because the goods involved are utterly dissimilar in appearance (See respond-

ent's Exhibit 101 at p. 31 *infra* and R. 504a; and R. 297a), respondent undertook to prove to the Master that the infringement had no relation to the profits it made on its Dixie Dew whiskey. There is nothing in the Master's Report or the decisions of the District Court or Court of Appeals that is at variance with already established principles. The cases cited by Mr. Justice Frankfurter in the above quotation illustrate the application of the principle in trade-mark, patent and copyright accountings. In *Westinghouse Electric Co. v. Wagner Mfg. Co.*, 225 U. S. 604, which applied the principle to patent cases, Mr. Justice Lamar, at p. 620, pointed out that a defendant may establish his case "by general evidence, expert testimony or otherwise". In *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U. S. 390, 404-405, Mr. Chief Justice Hughes said that the same type of testimony may be used in a copyright case in order to show the extent to which the profits on the infringing article were not attributable to the infringement. Respondent has done nothing more in this case than was done in those. It offered the opinion and expert testimony of men qualified in the field of liquor merchandising to establish that sales of Dixie Dew whiskey could not have benefited by the existence on the market of Dixie Belle gin, and satisfied the Master and the Courts below as to at least 75% of its profits on Dixie Dew (R. 250a-252a). Despite the Master's conviction that the amount should be much less (R. 252a), he nonetheless required respondent to pay $129,296.20 because its whiskey infringed a gin to which it bore no resemblance whatever. Petitioner should not now be granted certiorari merely to reargue the facts in an effort to increase its windfall.

II. Answer to Petitioner's Argument, Point 1, pp. 22-32: The Master's Finding of Fact, Viz., That 75% of the Respondent's Net Profit on Dixie Dew Whiskey Was Not Attributable to Its Infringement of Dixie Belle Gin, and the Decisions of the Courts Below Holding That His Findings Were Based on Legally Sufficient Evidence, Are Not Novel Decisions and Do Not Present Questions of Law.

All of petitioner's arguments on the weight of the evidence and the credibility of witnesses were presented to and passed upon by the Master. It is impossible for petitioner to transpose the Master's fact findings into legal conclusions. His conclusions as to the credibility of respondent's "trade witnesses" is contained at R. 227a-232a. They were by no means all "co-infringers" as petitioner suggests. Some were employees in various positions in the Pennsylvania liquor control system. Respondent's most important expert had been employed by a distillery competing with respondent, and at the time he testified, was the editor of a trade publication for the liquor industry. In any event, the Master evidently believed that by the time the "co-infringers" testified, any bias they might have had by reason of self-interest must have been largely dissipated.

The Master accepted the testimony of respondent's expert on liquor merchandising (R. 232a-234a). Contrary to its assertion at pp. 23-24, petitioner produced expert testimony to rebut that of respondent. This consisted of five witnesses whose testimony consumed almost 1200 pages. The Master found respondent's evidence unconvincing (R. 232a-234a).

Petitioner is seeking to persuade this Court that the lower courts have departed from the principles of the *Mishawaka* case (216 U. S. 203). In doing so, petitioner states that following the mandate of this Court, the infringer in the *Mishawaka* case was made to pay over all the

profits. The subsequent report of the case does not bear out this statement (only about $7,000 was paid out of about $140,000 demanded: 67 F. Supp. 1000), but the result is irrelevant because the infringer in the *Mishawaka* case offered none of the type of testimony that was offered in the case at bar in order to show what part of its profits were not attributable to the infringement.

Petitioner insists that in proving that the infringement had no relation to Dixie Dew sales, Mr. Justice Frankfurter's remarks in the *Mishawaka* case (316 U. S. 203, 206-207) imply that an infringer is held to some degree of proof higher than that prevailing in civil cases, namely the fair preponderance of the evidence. The Master touched on the problem at R. 217a-218a, and at R. 226a-232a. The District Court rejected petitioner's argument (R. 282a-283a) as did the Court of Appeals (R. 1863). The decision of the Court of Appeals in this respect is not new or novel, but is in accord with the *Mishawaka* case and the authorities cited therein.

Petitioner insists that respondent's evidence on the effect of the infringement consisted of nothing but "negative testimony", i.e., that all respondent's witnesses were able to testify to was that they had never observed confusion. It is hard to reconcile such a contention with the Master's discussion of the evidence at R. 240a-246a, in which he summarized the reasons which led him to find as he did. These reasons are:

(a) Dixie Dew whiskey sold principally on price and Bourbon appeal (R. 240a).

(b) Dixie Dew whiskey sold well in areas where Dixie Belle gin had little or no acceptance (R. 240a).

(c) Dixie Dew whiskey gained wide acceptance in areas where gin was not popular (R. 240a).

(d) "Companion-products" in liquor merchandising do not appear to have been very successful (R. 241a).

(e) There was a lack of interest among purchasers of cheap whiskey in the name or reputation of the distiller (R. 241a).

(f) Purchasers of cheap whiskey were not susceptible to the appeal of Dixie Belle gin advertising (R. 242a).

(g) The name of the Century Distilling Co. was prominently displayed on the Dixie Dew whiskey label (R. 242a).

(h) The demand for whiskey immediately after Repeal exceeded the supply. Brand appeal was not necessary to capture initial markets (R. 243a).

(i) The sale of Old Dover, which Century pushed as its principal cheap whiskey after it was obliged to discontinue the sale of Dixie Dew whiskey, was highly successful almost immediately (R. 244a).

(j) Bar sales are largely anonymous (R. 245a).

It took far more than negative testimony to establish these facts. The District Court thought that the evidence was sufficient (R. 290a) as did the Court of Appeals (R. 1863-1864). Petitioner has never attempted to contend that there was insufficient evidence to support the Master's findings.

Petitioner attacks particularly the findings of the Master with respect to sales of liquor across the bar. It asserts that in all future cases involving products such as these the Master's conclusions in this case will somehow become controlling, evidently by some unexplained extension of the doctrine of *stare decisis*. This analysis is not valid. On the basis of expert opinion evidence, the Master concluded that a very large proportion of hard liquor is sold across the bar and that such sales are largely anonymous (R. 245a). Although the proportion of bar sales was said to be from 70 to 75 per cent, and as high as 85 per cent in

some states, the Master felt compelled to adopt the lowest figure, which was 50 per cent, based on statistics furnished by the Pennsylvania Liquor Control Board. These statistics are contained in respondent's Exhibits 314, 314-A, and 314-B, R. 561a, 562a and 563a. They were received in evidence at pp. 8921-8926 of the transcript. Petitioner now attacks the validity of these statistics, although, as the Master pointed out, no such effort was made when they were before him (R. 245a). Petitioner goes quite outside the record in asserting that respondent could have and should have produced other proof to establish the percentages more specifically. The evidence presented was legally sufficient, and in fact extremely comprehensive.

Petitioner attacks the proof also on the ground that the Master overlooked the liquor laws in the various states. This was not so. The Master, as he himself said, had before him exhibits which indicated "the methods of distribution permitted or employed in each state" (R. 235a).

In any event a study of the Master's report will disclose that his decision about bar sales was only one factor in reaching his ultimate conclusion. He eliminated 50 per cent of the profits for the reasons appearing at R. 250a-251a as follows:

> "From the evidence reviewed in this case it appears with reasonable certainty that, at the very minimum, fifty (50%) per cent of all of Century's sales of Dixie Dew (and, of course, Dixiana, which has been treated throughout this report as a *de minimis* incidental to Dixie Dew) may be eliminated from the Master's calculation of the profits for which Century is liable to Continental, as representing: Either *wholly anonymous sales,* i.e., sales made without regard to brand identification, principally over the bar to purchasers by the drink in taverns, tap-rooms, restaurants, etc., where the choice of the proprietor, whose only motive was profit, intervened between the consumer and the brand,

or to purchasers who were interested only in value, i.e., in obtaining acceptable whiskey, especially bourbon, at lowest price, and were wholly indifferent or unresponsive to brand name or appeal; or *sales made wholly free of brand confusion,* to that not inconsiderable segment of the liquor-consuming public which is experienced and informed and relies only upon its own knowledge and judgment of brands and distillers, after inquiry and comparison. To this type of consumer the prominent appearance on the bottle of the name, Century Distilling Co., would, in the opinion of the Master, have been an adequate safeguard against deception."

Clearly, these are fact findings, and not conclusions of law. At R. 251a-252a he stated his reasons for eliminating an additional 25% as follows:

"Of the remaining fifty per cent of Century's total sales of Dixie Dew the Master estimates that one-half, or another twenty-five per cent of total sales can, conservatively, be eliminated as not likely to have resulted from confusion [2] with, or response to the diffused appeal of Dixie Belle because of: (a) the low economic level at which Dixie Dew sold, which no doubt included many illiterates among the poorer consumers in the south and among the large percentage of negro customers everywhere, who, in the opinion of the Master, were not likely to have conceived any pervasive consciousness of Dixie Belle, either from its quality advertising or from its presence and reputation in the middle-to-higher-class market; (b) Century's own reputation and influence and the effectiveness of its own merchandising efforts, particularly in the home territory of Illinois and neighboring markets, which no doubt accounted for a substantial volume of the sales of Dixie

2. The District Court, with the acquiescence of the Master, changed this portion to read "be eliminated as representing sales which could not have resulted from, or been affected by, any likelihood of confusion" . . . (R. 290a).

Dew on Century's own merit, irrespective of individual brand names; and (c) the scarcity of whiskey early in the period following repeal, when, it appears, almost any whiskey would have sold just as well by any name.

"Many of these factors, it is conceded, are obviously overlapping, but the Master has tried to appraise them conservatively to allow for the resulting duplication.

"The Master therefore concludes from all of the evidence, which has been produced before him and been reviewed by him *in extenso,* that the *likelihood of confusion or deception* found by the Court in its judgment on the similarity of the trade-names involved in this action *could not possibly have been a palpable, perceptible or tangible factor in more than twenty-five (25%) per cent of all of Century's sales of Dixie Dew* (and, of course, Dixiana)."

This emphatic finding shows that respondent's proof went far beyond the requirements of the "fair preponderance" rule. The Master said in addition (R. 252a).

"It is quite likely that the actual percentage of deception or confusion, or susceptibility thereto, was considerably less. *If the equities and burdens of proof were reversed or could be eliminated from consideration, the Master would have no hesitation in reducing the resulting figure substantially.*" (Emphasis supplied.)

It is submitted that it is only necessary to look at the photographs of the bottles to perceive the strong basis which the Master had for this finding (Respondent's Exhibit 101, Appendix B, p. 31 *infra,* and R. 504a).

In arguing on pp. 25 and 26 of the petition that the result of this case would permit anyone to infringe any food trade-mark by simply selling to outlets such as hotels and restaurants, petitioner overlooks the fact that "the law of

trade-marks is but a part of the broader law of unfair competition" (*United Drug Co. v. Rectanus Co.*, 248 U. S. 90, 97). Infringements are dealt with by the courts under their general equity powers (*Sheldon v. Metro-Goldwyn Corp.*, 309 U. S. 390, 405) as enlarged by the patent, copyright or trade-mark acts. The facts of a particular trade-mark case do not give rise to rules of law to be applied without distinction to all others. In some cases, injunctions are granted, but upon the accounting, it is found that due to the merchandising practices of the parties, plaintiff is entitled to no damages or profits. A dramatic example of such a result is *Obear-Nester Glass Co. v. United Drug Co.*, 149 F. 2d 671 (CCA 8th, 1945). Plaintiff manufactured bottles for the use of druggists, imprinted with its trade-mark "Rex". Defendant made bottles which were imprinted with "The Rexall Store". Both parties sold their bottles to Rexall drug stores for use in prescriptions. An injunction and an accounting were awarded plaintiff. The Master concluded that there could have been no profits or damages because obviously the druggists who bought the bottles were not confused; and the public could not have been confused because the public buys a prescription, not a bottle. In its petition to this Court for a writ of certiorari (October Term, 1945, No. 416), the Obear-Nester Company argued that the master's conclusions were without evidentiary basis and had the effect of inverting the burden of proof, contrary to this Court's decision in the *Mishawaka* case (316 U. S. 203), but nonetheless, certiorari was denied (326 U. S. 761). The Master in that case had taken *no* testimony on the subject of confusion in reaching what was obviously the realistic result.

In other cases, an injunction has been awarded but an accounting denied, such as in *Straus v. Notaseme Hosiery Co.*, 240 U. S. 179, in which this Court reversed the Circuit Court of Appeals for the Second Circuit, and determined that plaintiff was entitled to an injunction only, and not to an accounting. Mr. Justice Holmes, at p. 181, said:

> "That it was unfair to continue the use of a label so similar in general character to the plaintiff's we are not disposed to deny. But it does not follow that the defendants are chargeable with profits as a matter of course."

At p. 182, he said:

> "The question remains whether the petitioners' sales probably were induced to any large extent by confusion in the mind of the public between petitioners' goods and the plaintiff's."

Other cases where an injunction has been granted but an accounting denied are:

Sunbeam Corp. v. Sunbeam Lighting Co., 83 F. Supp. 329, modified 183 F. 2d 969 (CA 9th, 1950);

Durable Toy & Novelty Corp. v. J. Chein & Co., 133 F. 2d 853 (CCA 2d, 1943), cert. denied 320 U. S. 211;

Triangle Publications, Inc. v. Rohrlich, 167 F. 2d 969 (CA 2d, 1948).

In some, strikingly similar to the case at bar, all relief has been denied: *Eastern Wine Corp. v. Winslow-Warren, Ltd.*, 137 F. 2d 955 (CCA 2d, 1943), cert. denied 320 U. S. 758; *Coca Cola Co. v. Snowcrest Beverages, Inc.*, 64 F. Supp. 980, 162 F. 2d 280 (CCA 1st, 1947), cert. denied 332 U. S. 809. *Alexander Young Distilling Co. v. National Distillers Products Corp.*, 40 F. Supp. 748 (E. D. Pa. 1941), affd. 127 F. 2d 727 (CCA 3rd, 1942), contains an interesting commentary on the interlocutory decree in the case at bar (40 F. Supp. at 757).

In the future each case, then, will continue to be decided on its merits, and damages and profits will be awarded or denied depending on the factual situations presented without regard to the decision in the case at bar. Where there is an infringement, an injunction will be granted.

Where the infringer has passed off his goods as those of the trade-mark owner, or otherwise acted in a fraudulent manner, or where the trade-mark owner is out of pocket as a result of the infringement, the infringer will be made to pay. These considerations will govern the hypothetical situations which alarm petitioner. The equitable principles which gave them birth are of course applicable to all cases, and are deeply entrenched in our juristic system. The manner in which they have been applied in the case at bar furnishes no basis for certiorari.

III. Answer to Petitioner's Argument, Point 2, pp. 33-35: The Court of Appeals Correctly Concluded That Petitioner Could Not Recover Both Respondent's Profits and Damages for Lost Sales.

The trade-mark owner is not entitled to recover both the infringer's profits and damages for lost sales. He is awarded the infringer's profits "as the equitable measure of his compensation for loss of sales" (Restatement of Torts, § 747, comment b). Section 746(a) specifically permits the recovery of damages for lost sales "except when the defendant's profits are recovered under the rule stated in § 747" (other items of damage are of course recoverable whether or not profits are recovered—Restatement § 746(b), (c) and (d)).

In the *Mishawaka* case Mr. Justice Frankfurter recognized the foregoing general rule by saying (316 U. S. 203 at 208):

> "If the petitioner suffered damages *beyond the loss of profits* the decree should provide for the assessment of such damages." (Emphasis supplied.)

The District Court recognized this principle and, after more than eight years of the accounting, directed the Master to receive further testimony as to petitioner's damages on account of injury to its good will, advertising expenses, lowered prices, and increased selling costs (R. 280a, 281a).

As found by the Master and the District Court and affirmed by the Court of Appeals, the testimony thereafter introduced by petitioner failed to prove damage in any of these respects (R. 258a, 264a, 274a, 1864, 1865). But petitioner contends that, after ten years, and almost 10,000 typewritten pages consumed in the accounting for profits and damages, it should be permitted to start anew because dissatisfied with the award of profits.

During the accounting for profits, every basis for a claim of damages was considered. The Master had before him the sales of each product, month by month and state by state, and the details of petitioner's magazine and newspaper advertising before and during the infringement.[3] He also had almost 1,200 pages of testimony from five expert witnesses [4] called by petitioner to show, *inter alia,* that the infringement had an adverse effect on petitioner's product and to rebut respondent's testimony to the contrary. All of this testimony was considered by the Master. In Part II of his report, filed in November of 1948, he commented on the petitioner's failure to produce any witness who could testify to actual confusion or damage to Dixie Belle (R. 229a-230a). On this state of the record the District Court, in July of 1949, exercised a sound discretion to prevent needless duplication of testimony and, as a result of the factual situation and petitioner's continued insistence on recovery of profits, held that petitioner had elected to recover profits "as the equitable measure of" its "compensation for loss of sales" (Restatement of Torts, § 747, comment b). The decision of the Court of Appeals, on this point, involves no new or novel proposition of law. It merely affirms the action of the District Court in carrying out the trial court's normal function of controlling sequence

3. R. 555a-560a; 370a-373a; 506a-554a; Respondents Exhibits 313, 301, 302, introduced at transcript pp. 8723 and 8731.

4. Wroe Alderson, transcript pp. 7983-8226; 7844-7859; 9091-9203;
Howard T. Hovde, transcript pp. 7678-7685; 7698-7728; 7734-7844;
Paul Brown, transcript pp. 7604-7677; 7686-7697; 8276-8504;
R. Robert Smith, transcript pp. 8506-8653;
Fred Bettelheim, Jr., transcript pp. 8802-8850.

of proof in order to avoid duplication and cumulative testimony.

Petitioner argues that either the profit-accounting or damage-accounting had to come first as the two could not practicably run concurrently. It complains, in effect, that it was never given an opportunity to make an election (Brief, p. 35).

The argument overlooks the fact that in this case the petitioner's evidence with regard to lost sales was intertwined into the testimony with regard to the accounting of the infringer's profits. The argument likewise entirely passes by Judge Kirkpatrick's specific finding that petitioner had made an election:

> "Preliminarily I may say that I am of the opinion that Continental has elected to recover Century's profits. After having spent something like eight years in proving its claim for such profits, and after having shown that substantial profits were made, and after the fullest possible review of the situation and argument and discussion in which the question of election was emphasized, Continental is still pressing this claim. I am also of the opinion that the proof offered has established Continental's right to recover such profits." (R. 278a)

The contention of petitioner that it had not been given an adequate opportunity to make its election was fully argued before the Court of Appeals both in petitioner's original brief and on its motion for reargument. That Court's affirmance of the judgment of the District Court manifestly constituted nothing more than an assertion that the lower court's ruling fell within its discretionary power to control the sequence of proof. It is clear that the Court of Appeals did not undertake to establish any new doctrine with reference to election or the measure of damages, and no justification for a granting of certiorari can be developed in this case, based upon petitioner's contention to the contrary.

IV. Answer to Petitioner's Argument, Point 3, pp. 36-37: The District Court Properly Adhered to the General Rule in Allowing Interest on the Award to Run From the Date of the Filing of the Master's Report.

The Master allowed interest on the award at 5% from the date of the infringement (R. 205a-209a; 215a). The District Court said (R. 289a-290a):

> "Interest on Dixie Dew profits will be allowed at the rate of six per cent [5] per annum from the date of the Master's report. . . .
>
> "This is the rule adopted by the Circuit Court of Appeals for the Third Circuit in Gotham Silk Hosiery Co. v. Artcraft Silk Hosiery Mills, Inc., 147 F. 2d 209—a case in which it could not well be said that the defendant's wrongdoing was innocent."

The Court of Appeals did not even comment on the action of the District Court. That the ruling was proper was made clear by Mr. Justice Cardozo in *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U. S. 448, 459. To the extent that they are inconsistent with the *Duplate* case, the earlier cases cited by petitioner at p. 36 are no longer authoritative.

In any event such a ruling affords no basis for certiorari; nor is petitioner aided by its undocumented assertions on p. 36 concerning respondent's business operations —none of which are relevant, nor supported by any findings of the Master.

V. Answer to Petitioner's Argument, Point 4, pp. 37-43: Petitioner Is Not Entitled to Respondent's So-called "Hidden Economic Gains".

It does not clearly appear from petitioner's petition and brief just what the facts were with respect to what it now calls the infringer's "hidden economic gains" but

5. The maximum legal rate in Pennsylvania.

which elsewhere in the litigation has been referred to as "terminal profits."

Dixie Dew whiskey was manufactured and sold from September 1935 to June 30, 1939. Four and one-half years later, viz., in December of 1943, respondent, Century Distilling Company, was sold to National Distillers by its parent corporation. Petitioner wants a share of the proceeds realized on this sale on the theory that the sale of Dixie Dew whiskey, one of respondent's many brands, which had been discontinued four and one-half years earlier, played a significant part in the realization of the proceeds.

The assertions on pp. 38-40 of petitioner's brief exaggerate the effect of Dixie Dew whiskey on the growth of respondent; and it will be seen that these exaggerations are not borne out in the notes of testimony nor have they been found by the Master to have been established (R. 138a-139a) although they were presented to him in briefs and arguments. For example, respondent's counsel never conceded that the price realized on the sale of its distillery contained any element of good will attributable to Dixie Dew whiskey (R. 1225a)—an absurd proposition on its face since the line had long been discontinued. Respondent did not produce the breakdown of the price realized because the Master did not require it to (R. 1223a-1227a). The Master in this connection commented favorably at R. 135a-136a on the manner in which respondent made its books and records available during the accounting. The assertion that Dixie Dew whiskey was used as a "leader" is directly contrary to the Master's findings at R. 174a-175a.

These same contentions were presented in turn to the Master and the District Court and were emphatically rejected by both (R. 138a; 286a). The Court of Appeals affirmed without comment. No question of law is presented in any event. The Master decided that there was no factual basis for such a recovery (R. 138a-139a). The District Court decided that even if there were, the Master was justified in not treating respondent as a trustee *ex maleficio*

(R. 286a)—a mixed conclusion of law and fact obviously arrived at on the basis of the peculiar facts of this case. The decision furnishes no basis for the grant of certiorari.

The authorities invoked by petitioner are so unrelated to the problem that they have little if any bearing on it.

VI. Answer to Petitioner's Argument, Point 5, pp. 44-45: The Denial of Damages due to Impairment of Good Will Was Based on the Evidence, and Was Not a Legal Conclusion.

The Court of Appeals, contrary to petitioner's assertion, did not deny petitioner damages to its good will "merely because the goodwill recovered to its pre-infringement level after the effects of the infringement were dissipated". At R. 1864, the Court of Appeals mentioned the Master's finding that petitioner's evidence was insufficient to prove injury to Dixie Belle's good will. In a footnote (ftnt. 21, R. 1864), it mentioned the Master's observation (R. 272a-274a) that despite petitioner's claimed reduction in good will in 1941, its sales were higher than ever in 1942. The Master did not believe the factual matter which petitioner now presses on this Court. As to the Master's finding that petitioner had failed to prove damage to good will, the Court of Appeals said at R. 1865, concerning these damages:

> "We are satisfied that the Master's determinations do not constitute reversible error."

We submit that the Court's conclusion furnishes no basis for certiorari.

VII. Answer to Petitioner's Argument, Point 6, p. 46: The Court of Appeals Correctly Concluded That the District Court Did Not Abuse Its Discretion in Disallowing a Recovery in Excess of the Profit Award.

The Trade-Mark Act of 1905 (15 U. S. C. A. §§ 96, 99, *infra*, pp. 29-30) permits the trial court to increase the amount of damages up to three times the amount found.

There is no statutory authority for increasing the profit award. In the case at bar, there is no damage award. If there were, it would obviously be a matter of discretion whether damages should be increased or not. Likewise, whether other litigation expenses should be allowed as damages is a matter of discretion which was decided adversely to petitioner by the District Court (R. 295a-297a). The Court of Appeals held that there was no abuse of discretion (R. 1865-1866). Petitioner at p. 46 misstates the Court's holding in this regard. Damages for impairment of good will were disallowed because not proved (R. 272a-274a). In any event, there is presented no question of law, nor any basis for certiorari.

VIII. Conclusion.

The respondent submits that the petition for a writ of certiorari should be denied.

Respectfully submitted,

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APPENDIX A.

Former 15 U. S. C. A. §§ 96 and 99 (from the Trade-Mark Act of 1905):

§ 96. Evidence of ownership; infringement, and damages therefor

The registration of a trade-mark under the provisions of this subdivision of this chapter shall be prima facie evidence of ownership. Any person who shall, without the consent of the owner thereof, reproduce, counterfeit, copy, or colorably imitate any such trade-mark and affix the same to merchandise of substantially the same descriptive properties as those set forth in the registration, or to labels, signs, prints, packages, wrappers, or receptacles intended to be used upon or in connection with the sale of merchandise of substantially the same descriptive properties as those set forth in such registration, and shall use, or shall have used, such reproduction, counterfeit, copy, or colorable imitation in commerce among the several States, or with a foreign nation, or with the Indian tribes, shall be liable to an action for damages therefor at the suit of the owner thereof; and whenever in any such action a verdict is rendered for the plaintiff, the court may enter judgment therein for any sum above the amount found by the verdict as the actual damages, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs. Feb. 20, 1905, c. 592, § 16, 33 Stat. 728.

* * *

§ 99. Injunctions; recovery and assessment of damages

The several courts vested with jurisdiction of cases arising under this subdivision of this chapter shall have

power to grant injunctions, according to the course and principles of equity, to prevent the violation of any right of the owner of a trade-mark registered under said subdivision, on such terms as the court may deem reasonable; and upon a decree being rendered in any such case for wrongful use of a trade-mark the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction. The court shall have the same power to increase such damages, in its discretion, as is given by section 96 of this chapter for increasing damages found by verdict in actions of law; and in assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost which are claimed. Feb. 20, 1905, c. 592, § 19, 33 Stat. 729.


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Century's Exhibit 101

